

Enron Corp. Audit and Compliance Committee
October 12, 1998



ENRN011-11-06

Enron Corp.

EC 000050954

GOVERNMENT
EXHIBIT
1239

Crim. No. H-04-25 (S-2)

EXH011-00989

INTEROFFICE MEMORANDUM

October 30, 1998

ROUTED TO:

Rex R. Rogers
~~James V. Derrick, Jr.~~
Peggy B. Menchaca


DATE ROUTED:

11-2-98 RHR
Mr. Derrick has copy 11-24-98

RE: Minutes of the meeting of the Compensation and Management Development Committee of the Board of Directors of Enron Corp., held on October 12, 1998.

Attached for your reading pleasure and editorial expertise are the minutes of captioned meeting. Please edit and route to the next name on the list, indicating the date routed.

Thanks for your help.


Peggy B. Menchaca

Comments, please:
Philip J. Bazelides
Ed Coats

V:\Corp\mintranc.doc

*Draft
Includes Phil's
Comments.
P*

EC 000050955

INTEROFFICE MEMORANDUM

October 28, 1998

ROUTED TO:

DATE ROUTED:

Rex R. Rogers
James V. Derrick, Jr.
Peggy B. Menchaca

10.31.98

RE: Minutes of the meeting of the Audit and Compliance Committee of the Board of Directors of Enron Corp., held on October 12, 1998


Attached for your reading pleasure and editorial expertise are the minutes of captioned meeting. Please edit and route to the next name on the list, indicating the date routed.

Thanks for your help.


Peggy B. Menchaca

Comments please:
Robert H. Butts
Richard A. Causey
Ed Coats

mintrana.doc

12
These minutes
include comments
by Rex, JVD,
and R. Causey.


EC 000050956



Peggy B. Menchaca
Vice President and Secretary

Enron Corp.
P. O. Box 1188
Houston, TX 77251-1188
(713) 853-6424
Fax (713) 853-2534

November 4, 1998

Dr. Robert K. Jaedicke, Chairman
Mr. Ronnie C. Chan
Mr. Joc H. Foy
Dr. Wendy L. Gramm
Lord John Wakeham
Mr. Bruce G. Willison

Gentlemen and Dr. Gramm:

Enclosed for each of you is a draft of the minutes for the Enron Corp. Audit and Compliance Committee meeting held on October 12, 1998. If you have any additions, corrections, or changes you care to suggest on the draft of minutes enclosed, please call me at (713) 853-6424, or drop me a line at the above address.

Thanks for your time.

Sincerely,

Enclosure

H:\Audtran.doc

Natural gas. Electricity. Endless possibilities.™

EC 000050957

INTEROFFICE MEMORANDUM

October 28, 1998

ROUTED TO:

DATE ROUTED:

Rex R. Rogers
James V. Derrick, Jr.
Peggy B. Menchaca

10-30-98 *RRR*

RE: Minutes of the meeting of the Audit and Compliance Committee of the Board of Directors of Enron Corp., held on October 12, 1998

Attached for your reading pleasure and editorial expertise are the minutes of captioned meeting. Please edit and route to the next name on the list, indicating the date routed.

Thanks for your help.


Peggy B. Menchaca

Comments please:

Robert H. Butts
Richard A. Causey
Ed Coats

mintrana.doc

EC 000050958

ARTHUR ANDERSEN

May 11, 1998

Dr. Kenneth L. Lay
Chairman of the Board and
Chief Executive Officer
Enron Corp.
1400 Smith Street
Houston, Texas 77002

Arthur Andersen LLP

Suite 1300
711 Louisiana Street
Houston TX 77002-2786
713 237 2323

Dear Dr. Lay:

We are pleased to have been appointed as independent public accountants of Enron Corp. and subsidiaries (Enron or the Company) for the year ending December 31, 1998. In connection with our appointment, we would like to confirm our understanding of the services we will provide.

Our work is to consist of an audit of the consolidated balance sheet of Enron at December 31, 1998 and of the related consolidated statements of income, cash flows and changes in shareholders' equity accounts for the year then ending. We will also audit and issue separate auditor's reports on the 1998 financial statements of certain subsidiary companies, listed at Exhibit 1, where stand-alone financial statements for such companies are necessary to comply with the rules and regulations of the Securities and Exchange Commission (SEC), the Federal Energy Regulatory Commission (FERC) or to meet other obligations. The objective of our audits is to provide you with our auditor's report expressing an opinion on the financial statements referred to above.

Our work is also to consist of an examination, in accordance with standards established by the American Institute of Certified Public Accountants, of management's assertion that the system of internal control of Enron Corp. for the year ending December 31, 1998, was adequate to provide reasonable assurance as to the reliability of financial statements and the protection of assets against unauthorized acquisition, use or disposition based upon current standards of control criteria. Upon completion of our examination, we will provide you with our report on the assertion referred to above.

Audit Responsibilities and Limitations

We will conduct our audits in accordance with generally accepted auditing standards. Accordingly, we will examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assess the accounting principles used and significant estimates made by management, and evaluate the overall financial statement presentation.

Generally accepted auditing standards require that we obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement, whether caused by error or fraud. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect error or fraud that is immaterial to the financial statements. However,

EC 000050959

ARTHUR ANDERSEN

Dr. Kenneth L. Lay
Page 2
May 11, 1998

we will bring to your attention any material misstatements and any fraudulent or illegal acts of which we become aware during our audit. Pursuant to professional standards, in the unusual event that we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of the engagement.

Our audit and examination will include obtaining an understanding of the system of internal control over financial reporting and safeguarding of assets, testing and evaluating the design and operating effectiveness of the system, and such other procedures as we consider necessary in the circumstances. While an effective internal controls structure reduces the likelihood that errors or irregularities (including misappropriation of assets), may occur and remain undetected, it does not eliminate that possibility. Also, projections of any evaluation of the internal control system to future periods are subject to the risk that the internal control system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. Accordingly, and because we use selective testing in our audit and examination, we cannot guarantee that deficiencies in the design or operation of the internal control system, if present, will be detected. However, we will design our examination of management's assertion regarding the internal control system to provide reasonable assurance of detecting material weaknesses. Material weaknesses are conditions in which the design or operation of one or more elements of the system in internal control does not reduce, to a relatively low level, the risk that errors or irregularities, in amounts that would be material in relation to the financial statements, may occur and not be detected within a timely period.

Our audit and examinations are not designed to detect whether any systems are Year 2000 compliant. Further, we have no responsibility with regard to the Company's efforts to make its systems, or any other systems (such as those of the Company's vendors, service providers or any other third parties), Year 2000 compliant or provide assurance on whether the Company has addressed or will be able to address all of the affected systems on a timely basis. This is the responsibility of management. However, we will make inquiries of management regarding the Year 2000 issue, consider management's assessment of the potential impact of the Year 2000 issue on the current year's financial statements and our audit or examination, and discuss or otherwise be satisfied that senior management and the audit committee are apprised of any observations we have relative to its Year 2000 remediation plan.

Management's Responsibilities and Representations

The financial statements are the responsibility of the Company's management. Management is also responsible for (1) maintaining effective internal control over financial reporting and the safeguarding assets, (2) identifying and ensuring the Company complies with the laws and regulations applicable to its activities and (3) making available to us all financial records and related information and personnel with information of relevance to our work.

EC 000050960

ARTHUR ANDERSEN

Dr. Kenneth L. Lay

Page 3

May 11, 1998

As required by generally accepted auditing standards, we will make specific inquiries of management and others about the representations embodied in the financial statements and about the effectiveness of internal control. Those standards also require that we obtain from certain members of management a representation letter covering such matters. The results of our audit tests and examination procedures, the responses to our inquiries and the written representations constitute the evidential matter we intend to rely upon in forming an opinion on the financial statements and on management's assertion regarding internal control.

Also, under professional standards, in order for us to examine and report on management's assertion about the effectiveness of an entity's system of internal control, management must make an assertion regarding the effectiveness of the system of internal control. While we may assist management in accumulating evidence to enable them to make such an assertion, management is responsible for establishing and maintaining an effective system of internal control and for evaluating its effectiveness.

Other Services

In addition to our audits, we will review, in accordance with professional standards, the quarterly financial information to be included in the Company's reports to be filed with the SEC, except that, unless requested by the Company, we will not issue a report or obtain a representation letter from management. Our reviews will consist principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. These procedures are substantially less in scope than an audit made in accordance with generally accepted auditing standards and, accordingly, they do not provide any assurance that we will become aware of errors, fraud or illegal acts that would be disclosed in an audit. At the completion of each review, we will discuss the results with management.

Fees and Billing Arrangements

Our charges for the services described above have been previously agreed to by management and reviewed with the Audit Committee of the Board of Directors. Billings for such services will be made on a periodic basis during the year based on a schedule agreed upon by management. Of course, we will also be available to provide other accounting, tax or business advisory services as requested by Enron management throughout the year. Our charges for such services will be based upon the level of staff and time required to complete the assignment, plus out-of-pocket expenses.

Other Matters

Arthur Andersen LLP represents that the Firm and its personnel are independent of Enron pursuant to the rules and regulations of the American Institute of Certified Public Accountants (AICPA) and the SEC, as such term is utilized by the AICPA and the SEC.

EC 000050961

ARTHUR ANDERSEN

Dr. Kenneth L. Lay
Page 4
May 11, 1998

The working papers prepared in conjunction with our audits are the property of our Firm, constitute confidential and proprietary information and will be retained by us in accordance with our policies and procedures.

If you intend to publish or otherwise reproduce the financial statements together with our report (or otherwise make reference to our Firm) in a document that contains other information, you agree to provide us with a draft of the document to read and comment on before it is printed and distributed.

Any additional services that you may request, and that we agree to provide, will be the subject of separate written arrangements.


We look forward to our continued involvement with Enron and assure you that this work will be given our closest attention.

Very truly yours,

ARTHUR ANDERSEN LLP

By 
David B. Duncan

Agreed and Acknowledged by:


Richard A. Causey
Senior Vice President, Chief Accounting, Information
and Administrative Officer
Enron Corp.

Copy to: Mr. Richard A. Causey
Dr. Robert K. Jaedicke
Mr. Ronnie C. Chan
Mr. Joe H. Foy
Dr. Wendy L. Gramm
Lord John Wakeham
Mr. Bruce G. Willison
Mr. Jeffrey K. Skilling

EC 000050962

ARTHUR ANDERSEN

Exhibit 1

Enron Corp.
Stand-Alone Financial Statement Audits
December 31, 1998

<u>Entity</u>	<u>Type of Report Issued</u>
Enron Corp.	SEC Form 10-K
Transportation and Distribution	
Northern Natural Gas Company	Audit Report FERC Form 2
Transwestern Pipeline Company	Audit Report FERC Form 2
Portland General Electric	SEC Form 10-K Audit Report FERC Form 1
Fale Safe Incorporated	Audit Report
Trojan Nuclear Plant	Audit Report
Boardman Coal Plant	Audit Report
Enron Communications, Inc.	Audit Report
Exploration and Production	
Enron Oil & Gas Company	SEC Form 10-K
Enron Oil U.K. Limited	Audit Report
Wholesale Energy Services	
San Juan Gas Co, Inc.	Audit Report
Electricidad Enron de Guatemala, S.A.	Audit Report
Enron Europe Limited Group and Company	Audit Report
Enrici Power Marketing Limited	Audit Report
Enron Europe Liquids Processing	Audit Report
Enron Gas Processing (Europe) Limited	Audit Report
Enron Power Construction Limited (Group and Co.)	Audit Report
Enron Power (Europe) Limited	Audit Report
Enron Power Operations Limited (Group and Co.)	Audit Report
Trenron Limited	Audit Report
Enron Europe Construction Limited	Audit Report
Enron Gas Construction Limited	Audit Report
Teesside Power Holding Limited	Audit Report
Enron Power Trading Limited	Audit Report
Enron Capital & Trade Resources Limited	Audit Report
Enron Petrochemicals BV	Audit Report
Wallerescote Power Operations Limited	Audit Report
Teesside Gas Transportation Limited	Audit Report
Enron Europe Power 1 Limited (Group and Co.)	Audit Report
Enron Europe Power	Audit Report

EC 000050963

ARTHUR ANDERSEN

Exhibit 1

Enron Corp.
Stand-Alone Financial Statement Audits
December 31, 1998

<u>Entity</u>	<u>Type of Report Issued</u>
Wholesale Energy Services (cont.)	Audit Report
Enron Europe Power 2 Limited	Audit Report
IPG Power	Audit Report
Enron Engineering Services	Audit Report
Enron Sutton Bridge Operations & Maintenance Limited	Audit Report
Wallerstote Operations & Maintenance Limited	Audit Report
Teesside Gas Processing Limited	Audit Report
Enron Gas Processing (UK) Limited	Audit Report
Falco UPG Limited	Audit Report
UPG Falco Limited	Audit Report
Enron Europe Operations Limited	Audit Report
Enron Direct Limited	Audit Report
Enron Sutton Bridge Limited	Audit Report
Sutton Bridge Power	Audit Report
Sutton Bridge Financing Limited	Audit Report
Kent Power Limited	Audit Report
Sutton Bridge (Generation) Limited	Audit Report
Bretton Power	Audit Report
Enron Power Operations Teesside	Audit Report
Enron Gas and Petrochemicals Trading Limited	Audit Report
Enron Sutton Bridge 2 Limited	Audit Report
TGT Finance	Audit Report
Bretton Holdings (One) Limited	Audit Report
Sutton Bridge Investors 3	Audit Report
Enron Shareblock Limited (Group and Co.)	Audit Report
Enron KP1 Limited (Group and Co.)	Audit Report
Enron KP2 Limited	Audit Report
Enron Europe (Sites) Holdings Limited (Group and Co.)	Audit Report
Enron Europe (Sites) No. 2 Limited	Audit Report
Rassau Power Limited	Audit Report
Enron Europe Power Holdings	Audit Report
Enron Engineering Services	Audit Report
Flotilla Power Limited	Audit Report
Flotilla Power (UK) Limited	Audit Report

EC 000050964

Dr. Robert K. Jaedicke, Chairman
Mr. Ronnie C. Chan
Mr. Joe H. Foy
Dr. Wendy L. Gramm
Lord John Wakeham
Mr. Bruce G. Willison

NOTICE OF MEETING OF THE
AUDIT AND COMPLIANCE COMMITTEE
ENRON CORP.

Monday, October 12, 1998

A meeting of the Audit and Compliance Committee of the Board of Directors of Enron Corp. will be held at the time and place and for the purpose indicated below:

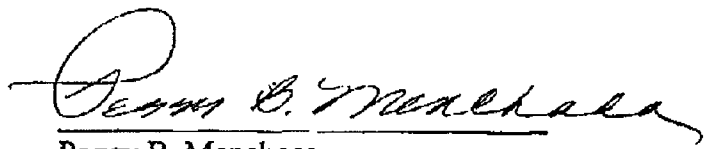
DATE: October 12, 1998

HOUR: 4:00 p.m. (C.D.T.)

PLACE: 50M Dining Room
Enron Corp.
Houston, Texas

SUBJECT: Such matters as may be properly brought before
the meeting.

Dated September 16, 1998.



Peggy B. Menchaca
Vice President and Secretary

cc: Mr. Kenneth L. Lay
Mr. Jeffrey K. Skilling
Mr. Richard B. Buy
Mr. James V. Derrick, Jr.
Mr. Richard A. Causey
Mr. Andrew S. Fastow

\\Corp\\Audnot.doc

EC 000050965

Move first sentence to end of previous paragraph.

Reword 1st sentence

Mr. Cauley & Mr. Duncan discussed matters relating to 1998 Financial Accounting matters including a contract associated with the acquisition of Portland General Electric.

EC 000050966

AUDIT COMMITTEE MEETING

OCTOBER 12, 1998



Endless possibilities.®

CONFIDENTIAL

EC 000050967



Audit Com. Mtg begun at 4:15 pm

① Minutes

② Update in AA

(Darr noted handed y AA letter
for audit com. information)

go to book) ① BPA 400000 \$150 mm, (MD, 2 - \$130 mm
1st thinner down, this was taped up \$20-30 mm
give me not able to audit. We don't have
evidence point to. ^{because} you had evidence
you would agree & the one /

③ Crisis (Kidnapping)
~~from~~ Normal update in foreign
countries + go to have copy

Insurance \$45 mm & coverage per person per
occurrence.

Wakeham: what is US board. View

Le Balla - Very opposed to U.S. as paying
ransom - but there is no law
against it.

Chan - asked about other energy
companies.

Caung - Consultants we use

Devin - one's interest is to notify local police
the fact is that often times police are

involved - Audit com's resp. is to
opine that we do have a

Le Balla left after this item.

④ All the PGE folks came in for this item.

1. Harrison, did overview + then Walter distribute
white & beach books + provided
introduced team. All white book, turned over to Lee
at decon
schedule

Respect

Integrity

Communication

Excellence



(2)

Steve went thru schedule & indicated status
of each item on schedule & proceeded thru
book.

During Q+A -
Harrison said Urguhart had been involved
& just spend 2 days examining program
& Urguhart commented, taking Larry
Dzgo next trip in Nov & take another
look.

Jordine/Henry ^{Harrison} are going to report to Audit
Com - & report in once a year.
Jordine OK.

Lay: what is probability of bringing it in
on budget & on schedule.

Steve said he can bring it in
on schedule & on budget (Steve).

Harrison - 70% chance of making
schedule & costs.

Program Expd Mtg after presentation.
Rick Bay did Agenda 5 -

Risk Management Update -
see book

Rick 2 - going to notify Finance Com -
of error of 15% Violation & proposed
to Fin Com. Mtg.

Respect

Integrity

Communication

Excellence

EC 000050969



(3)

Exec Session w/ AA

Jard. Anything to add to audit adjustment issue? Dair no & he thanked

discussion was healthy.

Steve B. joined discussion & commented on early diagnosis & involvement of AA & we have that type relationship w/ Wackam

Adjuvment @ 5:45P

asked about accounts, danger that might occur in the future that would have a substantial impact. Dair expressed some possible changes.

Respect

Integrity

Communication

Excellence

erecting
 L Jeff Skilling
 G Guckart R. Blake
 C Bussey (in progress)
 M McLean
 T Eldegar
 B Butts A. 16016
 J Verrier (in process)
 R Bury
 Z Murphy
 A New Adelson
 L Gaddard
 D McLean
 T Baker

he
Harrison
Pallack
teir
see Case
OK com
into, for
his name

brother
Call
F Y K com
into, for
his name

- gordian asked for sec
 2004 date or sent to
 committee. Darr said
 he would read.

Agenda Item 1

EC 000050972

DRAFT

**MINUTES
MEETING OF THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS
ENRON CORP.
May 4, 1998**

Minutes of a meeting of the Audit Committee ("Committee") of the Board of Directors of Enron Corp. ("Company"), noticed to begin at 3:30 p.m., but actually begun at 3:45 p.m., C.D.T., on May 4, 1998, at the Enron Building in Houston, Texas.

All of the Committee members were present, as follows:

Robert K. Jaedicke, Chairman
Ronnie C. Chan
Joe H. Foy
Wendy L. Granum
John Wakeham
Bruce G. Willison

Directors Kenneth L. Lay and Jeffrey K. Skilling, Messrs. Robert H. Butts, Richard B. Buy, Richard A. Causey, James V. Derrick, Jr., and Theodore R. Murphy, and Mesdames Rebecca C. Carter and Peggy B. Menchaca, all of the Company, and Messrs. David Duncan, Thomas H. Bauer, and D. Stephen Goddard, all of Arthur Andersen LLP ("Arthur Andersen"), also attended the meeting. Mr. Joseph C. Dilg of Vinson & Elkins, L.L.P. joined the meeting in progress as noted below.

The Chairman, Dr. Jaedicke, presided at the meeting, and the Secretary, Ms. Menchaca, recorded the proceedings.

Dr. Jaedicke called the meeting to order, and Mr. Skilling reviewed recent organizational changes. He introduced Mr. Buy, Vice President and Chief Risk Officer, and Mr. Murphy, Vice President of Risk Assessment and Control Group, and noted that Ms. Carter had moved into Enron Capital Management as Vice President and would have responsibility for the credit agencies.

Dr. Jaedicke noted that a draft of the minutes of a meeting of the Committee held on February 9, 1998, and a draft of the minutes of a joint meeting of the Audit and Finance Committees held on February 9, 1998, had been distributed to the Committee members. He called for any corrections or additions. There being none, upon motion duly made by Mr. Foy, seconded by Mr. Chan, and carried, the minutes of the meeting of

EC 000050973

the Committee held on February 9, 1998, and the joint meeting of the Audit and Finance Committee held on February 9, 1998, were approved as distributed.

Mr. Duncan began the report on the 1998 financial reporting audit plan. He reviewed the schedule for communication to the Committee and reviewed the Arthur Andersen client service team for each of the key operations of the Company. He reported on ongoing high priority financial reporting risk areas, and he called upon Mr. Bauer, who reported on 1998 specific financial reporting risk areas. He discussed developments in accounting literature and answered questions from the Committee. A copy of Mr. Duncan's report is filed with the records of the meeting.

Mr. Causey reported on significant current activities in business risk management. He stated that Mr. Buy had been elected as Vice President and Chief Risk Officer. He noted that the business risk manager concept had been implemented at all operating groups and was meeting regularly. He reported that the "Year 2000" plan execution was proceeding as scheduled and that a Company-wide Standard Accounting Plan design and implementation project would begin June 1. Mr. Causey next reported on the status of the 1998 Audit Plan by business risk area. A copy of Mr. Causey's report is filed with the records of the meeting.

Mr. Duncan presented a summary of fees charged by Arthur Andersen in 1997 and 1996 for its recurring audits, accounting consultation, and other consulting services, a copy of which is filed with the records of the meeting. He answered questions from the members of the Committee.

Mr. Skilling reviewed in detail proposed amendments to the Enron Capital and Trade Corp. ("ECT") Risk Management Policy (the "Policy"), a copy of which is filed with the records of the meeting. He noted that upon approval, the Policy would transition to a Company-wide policy. Mr. Buy joined in the presentation, following which a discussion ensued. Messrs. Skilling, Buy, Murphy, and Lay and Ms. Carter responded to questions presented by the Committee. Following the discussion, upon motion duly made by Dr. Gramm, seconded by Mr. Foy, and carried, the Policy was approved for recommendation to the Board of Directors.

Mr. Causey updated the Committee in detail concerning the Year 2000 systems plan. He reported on the Company's internal systems, imbedded chips, and other external issues addressed in the plan. He indicated that he would keep the Committee informed on the Company's progress.

Mr. Derrick excused himself from the meeting and Mr. Dilg was invited into the meeting. Mr. Dilg stated that Vinson & Elkins had been retained to look at any possible conflict issue that could exist by virtue of the marriage of Mr. Derrick and Ms. Carrin Patman, a partner at the law firm of Bracewell & Patterson. He described the research that he had done and stated his opinion that no such conflict issues exist. Mr. Dilg answered questions from the Committee, and the Committee complimented the depth of the report and the initiation of the study by Mr. Derrick.

Mr. Dilg excused himself from the meeting.

There being no further business to come before the Committee, the meeting was adjourned at 4:55 p.m., C.D.T.

Secretary

APPROVED:

Chairman

Agenda Item 2

EC 000050976

Memorandum

ARTHUR ANDERSEN

May 11, 1998

Dr. Kenneth L. Lay
Chairman of the Board and
Chief Executive Officer
Enron Corp.
1400 Smith Street
Houston, Texas 77002

Arthur Andersen LLP

Suite 1300
711 Louisiana Street
Houston TX 77002-2786
713 237 2323

Dear Dr. Lay:

We are pleased to have been appointed as independent public accountants of Enron Corp. and subsidiaries (Enron or the Company) for the year ending December 31, 1998. In connection with our appointment, we would like to confirm our understanding of the services we will provide.

Our work is to consist of an audit of the consolidated balance sheet of Enron at December 31, 1998 and of the related consolidated statements of income, cash flows and changes in shareholders' equity accounts for the year then ending. We will also audit and issue separate auditor's reports on the 1998 financial statements of certain subsidiary companies, listed at Exhibit 1, where stand-alone financial statements for such companies are necessary to comply with the rules and regulations of the Securities and Exchange Commission (SEC), the Federal Energy Regulatory Commission (FERC) or to meet other obligations. The objective of our audits is to provide you with our auditor's report expressing an opinion on the financial statements referred to above.

Our work is also to consist of an examination, in accordance with standards established by the American Institute of Certified Public Accountants, of management's assertion that the system of internal control of Enron Corp. for the year ending December 31, 1998, was adequate to provide reasonable assurance as to the reliability of financial statements and the protection of assets against unauthorized acquisition, use or disposition based upon current standards of control criteria. Upon completion of our examination, we will provide you with our report on the assertion referred to above.

Audit Responsibilities and Limitations

We will conduct our audits in accordance with generally accepted auditing standards. Accordingly, we will examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assess the accounting principles used and significant estimates made by management, and evaluate the overall financial statement presentation.

Generally accepted auditing standards require that we obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement, whether caused by error or fraud. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect error or fraud that is immaterial to the financial statements. However,

EC 000050977

ARTHUR ANDERSEN

Dr. Kenneth L. Lay
Page 2
May 11, 1998

we will bring to your attention any material misstatements and any fraudulent or illegal acts of which we become aware during our audit. Pursuant to professional standards, in the unusual event that we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of the engagement.

Our audit and examination will include obtaining an understanding of the system of internal control over financial reporting and safeguarding of assets, testing and evaluating the design and operating effectiveness of the system, and such other procedures as we consider necessary in the circumstances. While an effective internal controls structure reduces the likelihood that errors or irregularities (including misappropriation of assets), may occur and remain undetected, it does not eliminate that possibility. Also, projections of any evaluation of the internal control system to future periods are subject to the risk that the internal control system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. Accordingly, and because we use selective testing in our audit and examination, we cannot guarantee that deficiencies in the design or operation of the internal control system, if present, will be detected. However, we will design our examination of management's assertion regarding the internal control system to provide reasonable assurance of detecting material weaknesses. Material weaknesses are conditions in which the design or operation of one or more elements of the system in internal control does not reduce, to a relatively low level, the risk that errors or irregularities, in amounts that would be material in relation to the financial statements, may occur and not be detected within a timely period.

Our audit and examinations are not designed to detect whether any systems are Year 2000 compliant. Further, we have no responsibility with regard to the Company's efforts to make its systems, or any other systems (such as those of the Company's vendors, service providers or any other third parties), Year 2000 compliant or provide assurance on whether the Company has addressed or will be able to address all of the affected systems on a timely basis. This is the responsibility of management. However, we will make inquiries of management regarding the Year 2000 issue, consider management's assessment of the potential impact of the Year 2000 issue on the current year's financial statements and our audit or examination, and discuss or otherwise be satisfied that senior management and the audit committee are apprised of any observations we have relative to its Year 2000 remediation plan.

Management's Responsibilities and Representations

The financial statements are the responsibility of the Company's management. Management is also responsible for (1) maintaining effective internal control over financial reporting and the safeguarding assets, (2) identifying and ensuring the Company complies with the laws and regulations applicable to its activities and (3) making available to us all financial records and related information and personnel with information of relevance to our work.

EC 000050978

ARTHUR ANDERSEN

Dr. Kenneth L. Lay

Page 3

May 11, 1998

As required by generally accepted auditing standards, we will make specific inquiries of management and others about the representations embodied in the financial statements and about the effectiveness of internal control. Those standards also require that we obtain from certain members of management a representation letter covering such matters. The results of our audit tests and examination procedures, the responses to our inquiries and the written representations constitute the evidential matter we intend to rely upon in forming an opinion on the financial statements and on management's assertion regarding internal control.

Also, under professional standards, in order for us to examine and report on management's assertion about the effectiveness of an entity's system of internal control, management must make an assertion regarding the effectiveness of the system of internal control. While we may assist management in accumulating evidence to enable them to make such an assertion, management is responsible for establishing and maintaining an effective system of internal control and for evaluating its effectiveness.

Other Services

In addition to our audits, we will review, in accordance with professional standards, the quarterly financial information to be included in the Company's reports to be filed with the SEC, except that, unless requested by the Company, we will not issue a report or obtain a representation letter from management. Our reviews will consist principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. These procedures are substantially less in scope than an audit made in accordance with generally accepted auditing standards and, accordingly, they do not provide any assurance that we will become aware of errors, fraud or illegal acts that would be disclosed in an audit. At the completion of each review, we will discuss the results with management.

Fees and Billing Arrangements

Our charges for the services described above have been previously agreed to by management and reviewed with the Audit Committee of the Board of Directors. Billings for such services will be made on a periodic basis during the year based on a schedule agreed upon by management. Of course, we will also be available to provide other accounting, tax or business advisory services as requested by Enron management throughout the year. Our charges for such services will be based upon the level of staff and time required to complete the assignment, plus out-of-pocket expenses.

Other Matters

Arthur Andersen LLP represents that the Firm and its personnel are independent of Enron pursuant to the rules and regulations of the American Institute of Certified Public Accountants (AICPA) and the SEC, as such term is utilized by the AICPA and the SEC.

EC 000050979

ARTHUR ANDERSEN

Dr. Kenneth L. Lay
Page 4
May 11, 1998

The working papers prepared in conjunction with our audits are the property of our Firm, constitute confidential and proprietary information and will be retained by us in accordance with our policies and procedures.

If you intend to publish or otherwise reproduce the financial statements together with our report (or otherwise make reference to our Firm) in a document that contains other information, you agree to provide us with a draft of the document to read and comment on before it is printed and distributed.

Any additional services that you may request, and that we agree to provide, will be the subject of separate written arrangements.

We look forward to our continued involvement with Enron and assure you that this work will be given our closest attention.


Very truly yours,

ARTHUR ANDERSEN LLP

By


David B. Duncan

Agreed and Acknowledged by:



Richard A. Causey
Senior Vice President, Chief Accounting, Information
and Administrative Officer
Enron Corp.

Copy to: Mr. Richard A. Causey
Dr. Robert K. Jaedicke
Mr. Ronnie C. Chan
Mr. Joe H. Foy
Dr. Wendy L. Gramm
Lord John Wakeham
Mr. Bruce G. Willison
Mr. Jeffrey K. Skilling

EC 000050980

ARTHUR ANDERSEN

Exhibit 1

Enron Corp.
Stand-Alone Financial Statement Audits
December 31, 1998

<u>Entity</u>	<u>Type of Report Issued</u>
Enron Corp.	SEC Form 10-K
Transportation and Distribution	
Northern Natural Gas Company	Audit Report FERC Form 2
Transwestern Pipeline Company	Audit Report FERC Form 2
Portland General Electric	SEC Form 10-K Audit Report
Fale Safe Incorporated	FERC Form 1 Audit Report
Trojan Nuclear Plant	Audit Report
Boardman Coal Plant	Audit Report
Enron Communications, Inc.	Audit Report
Exploration and Production	
Enron Oil & Gas Company	SEC Form 10-K
Enron Oil U.K. Limited	Audit Report
Wholesale Energy Services	
San Juan Gas Co, Inc.	Audit Report
Electricidad Enron de Guatemala, S.A.	Audit Report
Enron Europe Limited Group and Company	Audit Report
Enrici Power Marketing Limited	Audit Report
Enron Europe Liquids Processing	Audit Report
Enron Gas Processing (Europe) Limited	Audit Report
Enron Power Construction Limited (Group and Co.)	Audit Report
Enron Power (Europe) Limited	Audit Report
Enron Power Operations Limited (Group and Co.)	Audit Report
Trenron Limited	Audit Report
Enron Europe Construction Limited	Audit Report
Enron Gas Construction Limited	Audit Report
Teesside Power Holding Limited	Audit Report
Enron Power Trading Limited	Audit Report
Enron Capital & Trade Resources Limited	Audit Report
Enron Petrochemicals BV	Audit Report
Wallerscote Power Operations Limited	Audit Report
Teesside Gas Transportation Limited	Audit Report
Enron Europe Power 1 Limited (Group and Co.)	Audit Report
Enron Europe Power	Audit Report

EC 000050981

ARTHUR ANDERSEN

Exhibit 1

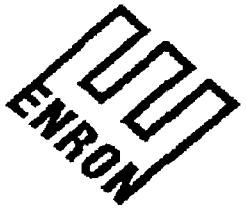
Enron Corp.
Stand-Alone Financial Statement Audits
December 31, 1998

<u>Entity</u>	<u>Type of Report Issued</u>
Wholesale Energy Services (cont.)	Audit Report
Enron Europe Power 2 Limited	Audit Report
IPG Power	Audit Report
Enron Engineering Services	Audit Report
Enron Sutton Bridge Operations & Maintenance Limited	Audit Report
Wallerstote Operations & Maintenance Limited	Audit Report
Teesside Gas Processing Limited	Audit Report
Enron Gas Processing (UK) Limited	Audit Report
Falco UPG Limited	Audit Report
UPG Falco Limited	Audit Report
Enron Europe Operations Limited	Audit Report
Enron Direct Limited	Audit Report
Enron Sutton Bridge Limited	Audit Report
Sutton Bridge Power	Audit Report
Sutton Bridge Financing Limited	Audit Report
Kent Power Limited	Audit Report
Sutton Bridge (Generation) Limited	Audit Report
Bretton Power	Audit Report
Enron Power Operations Teesside	Audit Report
Enron Gas and Petrochemicals Trading Limited	Audit Report
Enron Sutton Bridge 2 Limited	Audit Report
TGT Finance	Audit Report
Bretton Holdings (One) Limited	Audit Report
Sutton Bridge Investors 3	Audit Report
Enron Shareblock Limited (Group and Co.)	Audit Report
Enron KP1 Limited (Group and Co.)	Audit Report
Enron KP2 Limited	Audit Report
Enron Europe (Sites) Holdings Limited (Group and Co.)	Audit Report
Enron Europe (Sites) No. 2 Limited	Audit Report
Rassau Power Limited	Audit Report
Enron Europe Power Holdings	Audit Report
Enron Engineering Services	Audit Report
Flotilla Power Limited	Audit Report
Flotilla Power (UK) Limited	Audit Report

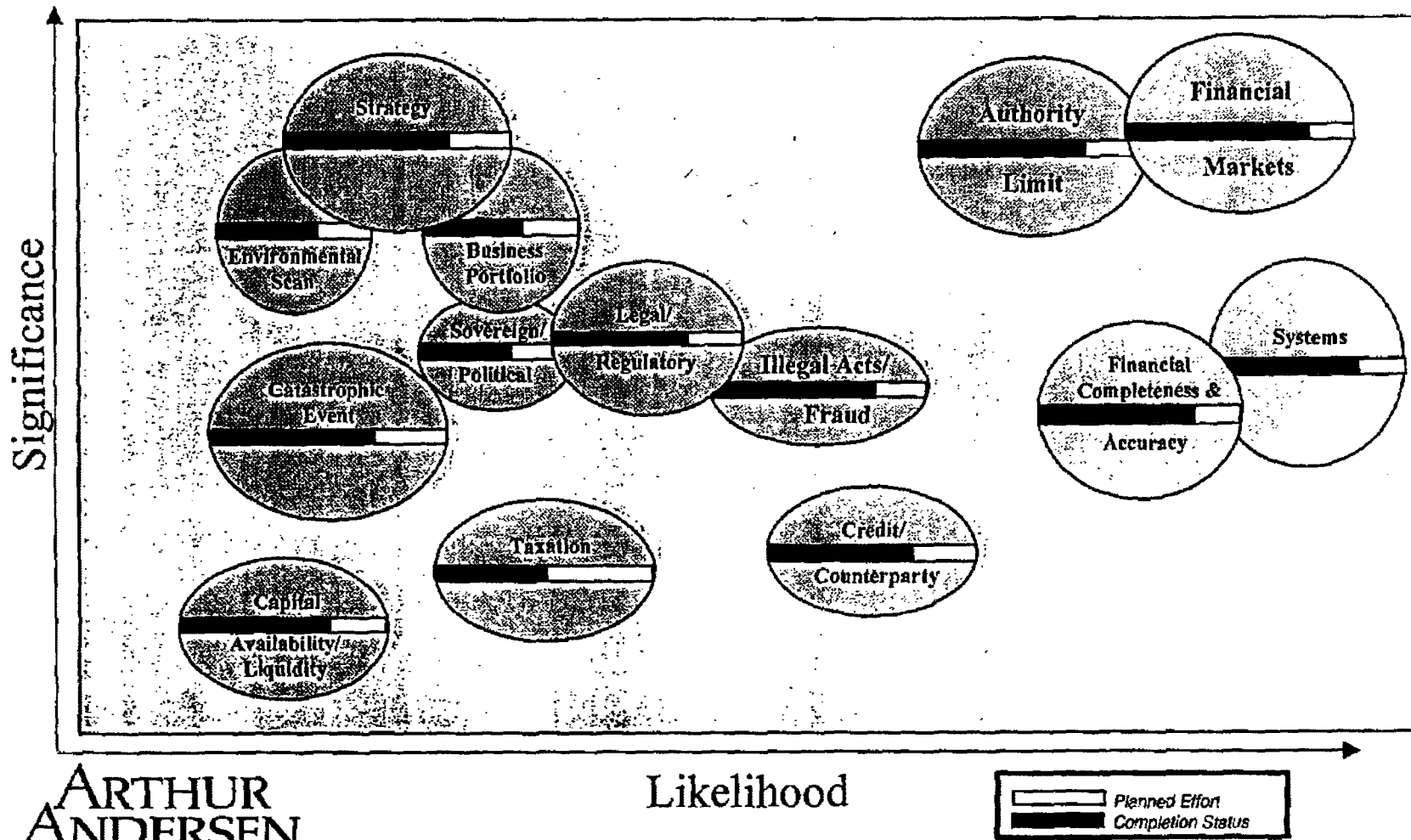
EC 000050982

Spiral

EC 000050983



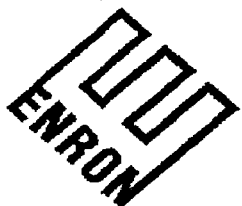
1998 Business Risk Audit Plan Status Overview



ARTHUR
ANDERSEN

EC 000050984

Deen



Business Risk Management Significant Current Activities

- Business Risk Manager Roles Operating Well; Control Database Nearing Completion
- Previously Noted "Blocking and Tackling" Areas Receiving Focus
- Extensive In-Process Systems Activities Ongoing
 - ✓•Y2K
 - ✓•SAP
 - ✓•Trading
 - Security
 - Recovery
- Remote Location Risk Assessment Enhancements *John Baur commented on this point.*
- Policy and Standard Development Activity in Legal and Environmental Areas - *Good efforts to improve in each area.*

EC 000050985

ARTHUR
ANDERSEN

*Carmy stated that commented on
to the items listed under "Ex + In Process
systems activities checked.*

*Wade
Dennis*



Financial Reporting Significant Current Activities

- Start-Up Costs SOP and Related Company Activities
- Monetizations - Rulemaking Monitoring Activities
Rick commented in this item noting that ERM was on plan for monetizing \$700 mm assets before year-end.
- Acquisition Related Activities
- Continued Evolution of Mark-to-Market and Fair Value Methodologies
- Recent SEC Initiatives

Jeff joined mtr at this point.

ARTHUR
ANDERSEN

Norm Blake joined mtr

Leah Speer

Rick commented on various points as developed by Darr. & the 4 areas worked on were issues w/PA - by a. Discussion ensued, answered questions by team.

Darr

Andre La Bella joined mtr following Carney discussion.

EC 000050986

Levitt Speech
Five Popular Earnings Management Practices

- “Big Bath” restructuring charges
- Creative Acquisition Accounting
- Miscellaneous “Cookie Jar Reserves”
- Materiality
- Revenue Recognition

AA - Arthur Andersen
SEC Practice 08. SEC Staff Views
SEC Staff Speeches, Various
The Numbers Game, Arthur Levitt, Chairman

SPCH.T.1998.Levitt.

REMARKS BY CHAIRMAN ARTHUR LEVITT
SECURITIES AND EXCHANGE COMMISSION
THE "NUMBERS GAME"
NYU CENTER FOR LAW AND BUSINESS,
NEW YORK, N.Y.
SEPTEMBER 28, 1998

Thank you very much. Dean Daly, Dean Sexton and to everyone gathered this evening, thank you for welcoming me tonight. I am honored to be here on such an auspicious evening for both NYU and Bill Allen.

The creation of the Center for Law and Business recognizes an important truth: we cannot continue to view the worlds of business and law as parallel but separate universes. And NYU could not have selected a more qualified or thoughtful individual than Bill as its first director. His leadership of the Delaware Court of Chancery -- acknowledged as the nation's most influential arbiter of corporate law -- confirmed his reputation as a great thinker who effortlessly bridges the worlds of law and business. I've heard from friends on Wall Street that it's a far less stressful experience to hear Bill lecture in front of a classroom than from his former seat on the bench.

Seven months ago, I expressed concerns about selective disclosure. Through conference calls or embargoed press releases, analysts and institutional investors often hear about material news before it is made public. In the interval, there is a great deal of unusual trading. The practice had been going on for a long time. And, while everyone was aware of it, and most were extremely uncomfortable with it, few spoke out. As the investor's advocate, the SEC did and we will continue to do so.

Well, today, I'd like to talk to you about another widespread, but too little-challenged custom: earnings management. This process has evolved over the years into what can best be characterized as a game among market participants. A game that, if not addressed soon, will have adverse consequences for America's financial reporting system. A game that runs counter to the very principles behind our market's strength and success.

Increasingly, I have become concerned that the motivation to meet Wall Street earnings expectations may be overriding common sense business practices. Too many corporate managers, auditors, and analysts are participants in a game of nods and winks. In the zeal to satisfy consensus earnings estimates and project a smooth earnings path, wishful thinking may be winning the day over faithful representation.

As a result, I fear that we are witnessing an erosion in the quality of earnings, and therefore, the quality of financial reporting. Managing may be giving way to manipulation; Integrity may be losing out to illusion.

Many in corporate America are just as frustrated and concerned about this trend as we, at the SEC, are. They know how difficult it is to hold the line on good practices when their competitors operate in the gray area between legitimacy and outright fraud.

EC 000050988

A gray area where the accounting is being perverted; where managers are cutting corners; and, where earnings reports reflect the desires of management rather than the underlying financial performance of the company.

Tonight, I want to talk about why integrity in financial reporting is under stress and explore five of the more common accounting gimmicks we've been seeing. Finally, I will outline a framework for a financial community response to this situation.

This necessary response involves improving both our accounting and disclosure rules, as well as the oversight and function of outside auditors and board audit committees. I am also calling upon a broad spectrum of capital market participants, from corporate management to Wall Street analysts to investors, to stand together and re-energize the touchstone of our financial reporting system: transparency and comparability.

This is a financial community problem. It can't be solved by a government mandate: it demands a financial community response.

THE ROLE OF FINANCIAL REPORTING IN OUR ECONOMY

Today, America's capital markets are the envy of the world. Our efficiency, liquidity and resiliency stand second to none. Our position, no doubt, has benefited from the opportunity and potential of the global economy. At the same time, however, this increasing interconnectedness has made us more susceptible to economic and financial weakness half a world away.

The significance of transparent, timely and reliable financial statements and its importance to investor protection has never been more apparent. The current financial situations in Asia and Russia are stark examples of this new reality. These markets are learning a painful lesson taught many times before: investors panic as a result of unexpected or unquantifiable bad news.

If a company fails to provide meaningful disclosure to investors about where it has been, where it is and where it is going, a damaging pattern ensues. The bond between shareholders and the company is shaken; investors grow anxious; prices fluctuate for no discernible reasons; and the trust that is the bedrock of our capital markets is severely tested.

THE PRESSURE TO "MAKE YOUR NUMBERS"

While the problem of earnings management is not new, it has swelled in a market that is unforgiving of companies that miss their estimates. I recently read of one major U.S. company, that failed to meet its so-called "numbers" by one penny, and lost more than six percent of its stock value in one day.

I believe that almost everyone in the financial community shares responsibility for fostering a climate in which earnings management is on the rise and the quality of financial reporting is on the decline. Corporate management isn't operating in a vacuum. In fact, the different pressures and expectations placed by, and on, various participants in the financial community appear to be almost self-perpetuating.

This is the pattern earnings management creates: companies try to meet or beat Wall Street earnings projections in order to grow market capitalization and increase the value of stock options. Their ability to do this depends on achieving the earnings expectations of analysts. And analysts seek constant guidance from companies to frame those expectations. Auditors, who want to retain their clients, are under pressure not to stand in the way.

ACCOUNTING HOCUS-POCUS

EC 000050989

Our accounting principles weren't meant to be a straitjacket. Accountants are wise enough to know they cannot anticipate every business structure, or every new and innovative transaction, so they develop principles that allow for flexibility to adapt to changing circumstances. That's why the highest standards of objectivity, integrity and judgment can't be the exception. They must be the rule.

Flexibility in accounting allows it to keep pace with business innovations. Abuses such as earnings management occur when people exploit this pliancy. Trickery is employed to obscure actual financial volatility. This, in turn, masks the true consequences of management's decisions. These practices aren't limited to smaller companies struggling to gain investor interest. It's also happening in companies whose products we know and admire.

So what are these illusions? Five of the more popular ones I want to discuss today are "big bath" restructuring charges, creative acquisition accounting, "cookie jar reserves," "immaterial" misapplications of accounting principles, and the premature recognition of revenue.

"Big Bath" Charges

Let me first deal with "Big Bath" restructuring charges.

Companies remain competitive by regularly assessing the efficiency and profitability of their operations. Problems arise, however, when we see large charges associated with companies restructuring. These charges help companies "clean up" their balance sheet -- giving them a so-called "big bath."

Why are companies tempted to overstate these charges? When earnings take a major hit, the theory goes Wall Street will look beyond a one-time loss and focus only on future earnings.

And if these charges are conservatively estimated with a little extra cushioning, that so-called conservative estimate is miraculously reborn as income when estimates change or future earnings fall short.

When a company decides to restructure, management and employees, investors and creditors, customers and suppliers all want to understand the expected effects. We need, of course, to ensure that financial reporting provides this information. But this should not lead to flushing all the associated costs -- and maybe a little extra -- through the financial statements.

Creative Acquisition Accounting

Let me turn now to the second gimmick.

In recent years, whole industries have been remade through consolidations, acquisitions and spin-offs. Some acquirers, particularly those using stock as an acquisition currency, have used this environment as an opportunity to engage in another form of "creative" accounting. I call it "merger magic."

I am not talking tonight about the pooling versus purchase problem. Some companies have no choice but to use purchase accounting -- which can result in lower future earnings. But that's a result some companies are unwilling to tolerate.

So what do they do? They classify an ever-growing portion of the acquisition price as "in-process" Research and Development, so -- you guessed it -- the amount can be written off in a "one-time" charge -- removing any future earnings drag. Equally troubling is the creation of large liabilities for future operating expenses to protect future earnings -- all under the mask of an acquisition.

EC 000050990

Miscellaneous "Cookie Jar Reserves"

A third illusion played by some companies is using unrealistic assumptions to estimate liabilities for such items as sales returns, loan losses or warranty costs. In doing so, they stash accruals in cookie jars during the good times and reach into them when needed in the bad times.

I'm reminded of one U.S. company who took a large one-time loss to earnings to reimburse franchisees for equipment. That equipment, however, which included literally the kitchen sink, had yet to be bought. And, at the same time, they announced that future earnings would grow an impressive 15 percent per year.

"Materiality"

Let me turn now to the fourth gimmick — the abuse of materiality — a word that captures the attention of both attorneys and accountants. Materiality is another way we build flexibility into financial reporting. Using the logic of diminishing returns, some items may be so insignificant that they are not worth measuring and reporting with exact precision.

But some companies misuse the concept of materiality. They intentionally record errors within a defined percentage ceiling. They then try to excuse that fib by arguing that the effect on the bottom line is too small to matter. If that's the case, why do they work so hard to create these errors? Maybe because the effect can matter, especially if it picks up that last penny of the consensus estimate. When either management or the outside auditors are questioned about these clear violations of GAAP, they answer sheepishly, "It doesn't matter. It's immaterial."

In markets where missing an earnings projection by a penny can result in a loss of millions of dollars in market capitalization, I have a hard time accepting that some of these so-called non-events simply don't matter.

Revenue Recognition

Lastly, companies try to boost earnings by manipulating the recognition of revenue. Think about a bottle of fine wine. You wouldn't pop the cork on that bottle before it was ready. But some companies are doing this with their revenue — recognizing it before a sale is complete, before the product is delivered to a customer, or at a time when the customer still has options to terminate, void or delay the sale.

ACTION PLAN

Since U.S. capital market supremacy is based on the reliability and transparency of financial statements, this is a financial community problem that calls for timely financial community action.

Therefore, I am calling for immediate and coordinated action: technical rule changes by the regulators and standard setters to improve the transparency of financial statements; enhanced oversight of the financial reporting process by those entrusted as the shareholders' guardians; and nothing less than a fundamental cultural change on the part of corporate management as well as the whole financial community.

This action plan represents a cooperative public-private sector effort. It is essential that we work together to assure credibility and transparency. Our nine-point program calls for both regulators and the regulated to not only maintain, but increase public confidence which has made our markets the envy of the world. I believe this problem calls for immediate action that includes the following specific steps:

EC 000050991

Improving the Accounting Framework

First, I have instructed the SEC staff to require well-detailed disclosures about the impact of changes in accounting assumptions. This should include a supplement to the financial statement showing beginning and ending balances as well as activity in between, including any adjustments. This will, I believe, enable the market to better understand the nature and effects of the restructuring liabilities and other loss accruals.

Second, we are challenging the profession, through the AICPA, to clarify the ground rules for auditing of purchased R&D. We also are requesting that they augment existing guidance on restructurings, large acquisition write-offs, and revenue recognition practices. It's time for the accounting profession to better qualify for auditors what's acceptable and what's not.

Third, I reject the notion that the concept of materiality can be used to excuse deliberate misstatements of performance. I know of one Fortune 500 company who had recorded a significant accounting error, and whose auditors told them so. But they still used a materiality ceiling of six percent earnings to justify the error. I have asked the SEC staff to focus on this problem and publish guidance that emphasizes the need to consider qualitative, not just quantitative factors of earnings. Materiality is not a bright line cutoff of three or five percent. It requires consideration of all relevant factors that could impact an investor's decision.

Fourth, SEC staff will immediately consider interpretive accounting guidance on the do's and don'ts of revenue recognition. The staff will also determine whether recently published standards for the software industry can be applied to other service companies.

Fifth, I am asking private sector standard setters to take action where current standards and guidance are inadequate. I encourage a prompt resolution of the FASB's projects, currently underway, that should bring greater clarity to the definition of a liability.

Sixth, the SEC's review and enforcement teams will reinforce these regulatory initiatives. We will formally target reviews of public companies that announce restructuring liability reserves, major write-offs or other practices that appear to manage earnings. Likewise, our enforcement team will continue to root out and aggressively act on abuses of the financial reporting process.

Improved Outside Auditing in the Financial Reporting Process

Seventh, I don't think it should surprise anyone here that recent headlines of accounting failures have led some people to question the thoroughness of audits. I need not remind auditors they are the public's watchdog in the financial reporting process. We rely on auditors to put something like the good housekeeping seal of approval on the information investors receive. The integrity of that information must take priority over a desire for cost efficiencies or competitive advantage in the audit process. High quality auditing requires well-trained, well-focused and well-supervised auditors.

As I look at some of the failures today, I can't help but wonder if the staff in the trenches of the profession have the training and supervision they need to ensure that audits are being done right. We cannot permit thorough audits to be sacrificed for re-engineered approaches that are efficient, but less effective. I have just proposed that the Public Oversight Board form a group of all the major constituencies to review the way audits are performed and assess the impact of recent trends on the public interest.

Strengthening the Audit Committee Process

EC 000050992

And, finally, qualified, committed, independent and tough-minded audit committees represent the most reliable guardians of the public interest. Sadly, stories abound of audit committees whose members lack expertise in the basic principles of financial reporting as well as the mandate to ask probing questions. In fact, I've heard of one audit committee that convenes only twice a year before the regular board meeting for 15 minutes and whose duties are limited to a perfunctory presentation.

Compare that situation with the audit committee which meets twelve times a year before each board meeting; where every member has a financial background; where there are no personal ties to the chairman or the company; where they have their own advisers; where they ask tough questions of management and outside auditors; and where, ultimately, the investor interest is being served.

The SEC stands ready to take appropriate action if that interest is not protected. But, a private sector response that empowers audit committees and obviates the need for public sector dictates seems the wisest choice. I am pleased to announce that the financial community has agreed to accept this challenge.

As part eight of this comprehensive effort to address earnings management, the New York Stock Exchange and the National Association of Securities Dealers have agreed to sponsor a "blue-ribbon" panel to be headed by John Whitehead, former Deputy Secretary of State and retired senior partner of Goldman, Sachs, and Ira Millstein, a lawyer and noted corporate governance expert. Within the next 90 days, this distinguished group will develop a series of far-ranging recommendations intended to empower audit committees and function as the ultimate guardian of investor interests and corporate accountability. They are going to examine how we can get the right people to do the right things and ask the right questions.

Need for a Cultural Change

Finally, I'm challenging corporate management and Wall Street to re-examine our current environment. I believe we need to embrace nothing less than a cultural change. For corporate managers, remember, the integrity of the numbers in the financial reporting system is directly related to the long-term interests of a corporation. While the temptations are great, and the pressures strong, illusions in numbers are only that -- ephemeral, and ultimately self-destructive.

To Wall Street, I say, look beyond the latest quarter. Punish those who rely on deception, rather than the practice of openness and transparency.

CONCLUSION

Some may conclude that this debate is nothing more than an argument over numbers and legalistic terms. I couldn't disagree more.

Numbers in the abstract are just that -- numbers. But relying on the numbers in a financial report are livelihoods, interests and ultimately, stories: a single mother who works two jobs so she can save enough to give her kids a good education; a father who labored at the same company for his entire adult life and now just wants to enjoy time with his grandchildren; a young couple who dreams of starting their own business. These are the stories of American investors.

Our mandate and our obligations are clear. We must rededicate ourselves to a fundamental principle: markets exist through the grace of investors.

Today, American markets enjoy the confidence of the world. How many half-truths, and how much accounting sleight-of-hand, will it take to tarnish that faith?

EC 000050993

As a former businessman, I experienced all kinds of markets, dealt with a variety of trends, fads, fears, and irrational exuberances. I learned that some habits die hard. But, more than anything else, I learned that progress doesn't happen overnight and it's not sustained through short cuts or obfuscation. It's induced, rather, by asking hard questions and accepting difficult answers.

For the sake of our markets; for the sake of a globalized economy which depends so much on the reliability of America's financial system; for the sake of investors; and for the sake of a larger commitment not only to each other, but to ourselves, I ask that we join together to reinforce the values that have guided our capital markets to unparalleled supremacy. Together, through vigilance and trust, I know, we can succeed.

Thank you.

©1998 Arthur Andersen. All Rights Reserved.

EC 000050994

Agenda Item 3

EC 000050995

Top Ten Kidnap Countries

Country	Total Since 1991	1997 Total	Enron Presence
Colombia	3808	887	E
Brazil	517	62	E
Pakistan	439	-	E
Philippines	445	56	E
Mexico	517	237	E
USA	194	23	E
Guatemala	169	8	E
Venezuela	105	24	E
India	88	7	E
Ecuador	53	-	-

caused

EC 000050996

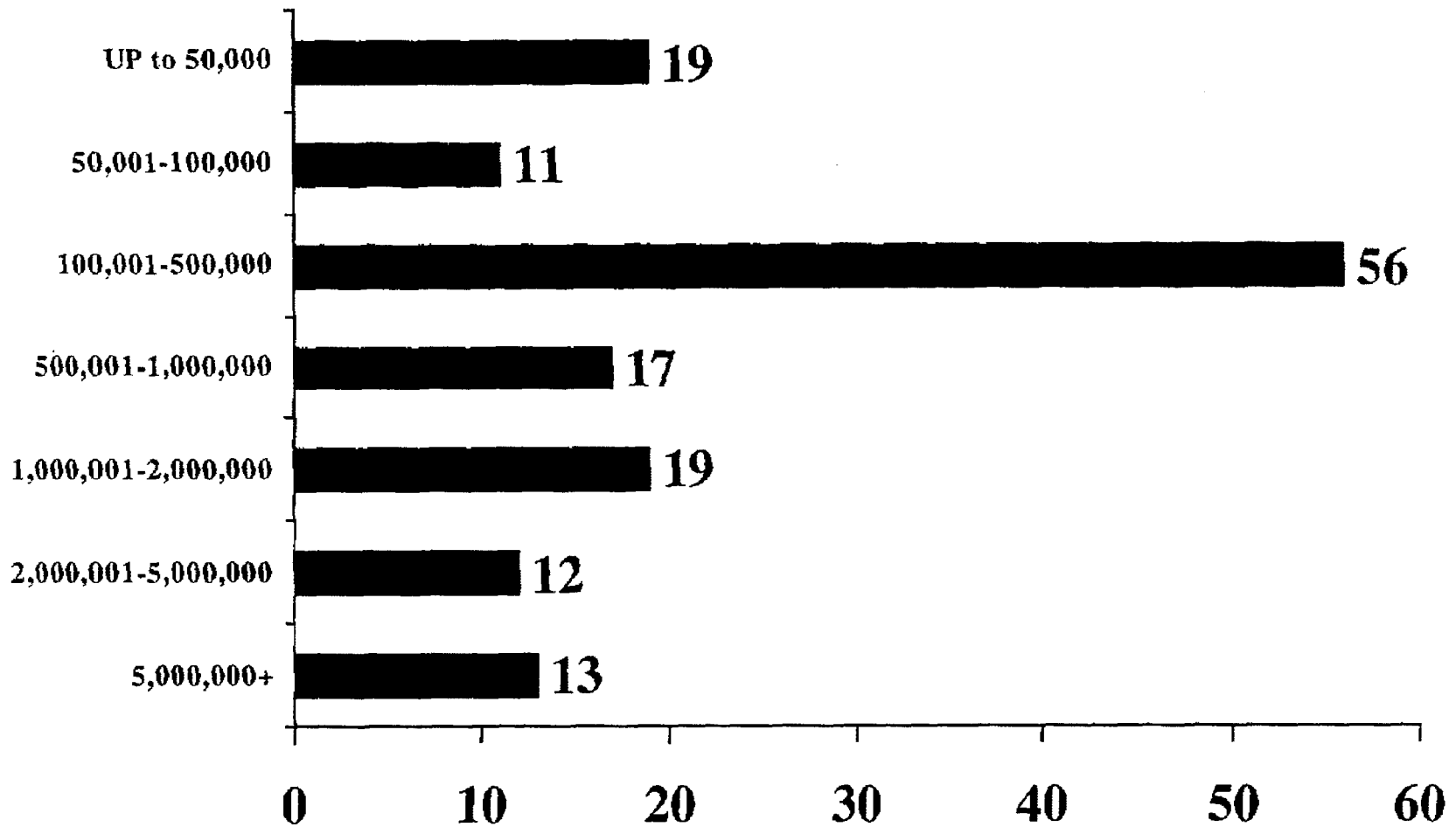
Demands

■ Cash	92%
■ Publicity	2%
■ Release of Prisoners	2%
■ Welfare/Other	4%

EC 000050997

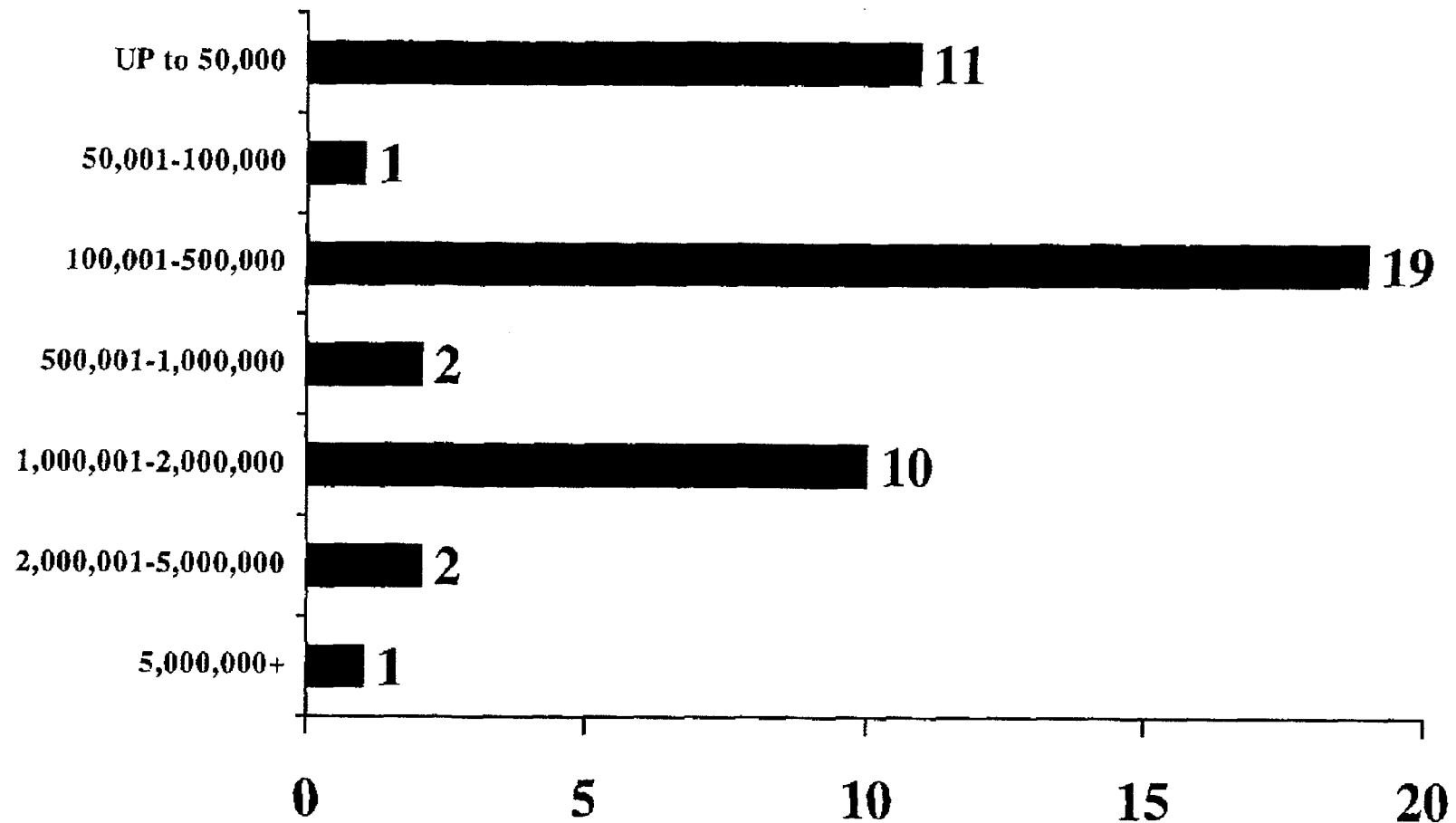
Rued

Kidnaps of Foreign Nationals from 1992 Demands (US\$ Equivalent)



EC 000050998

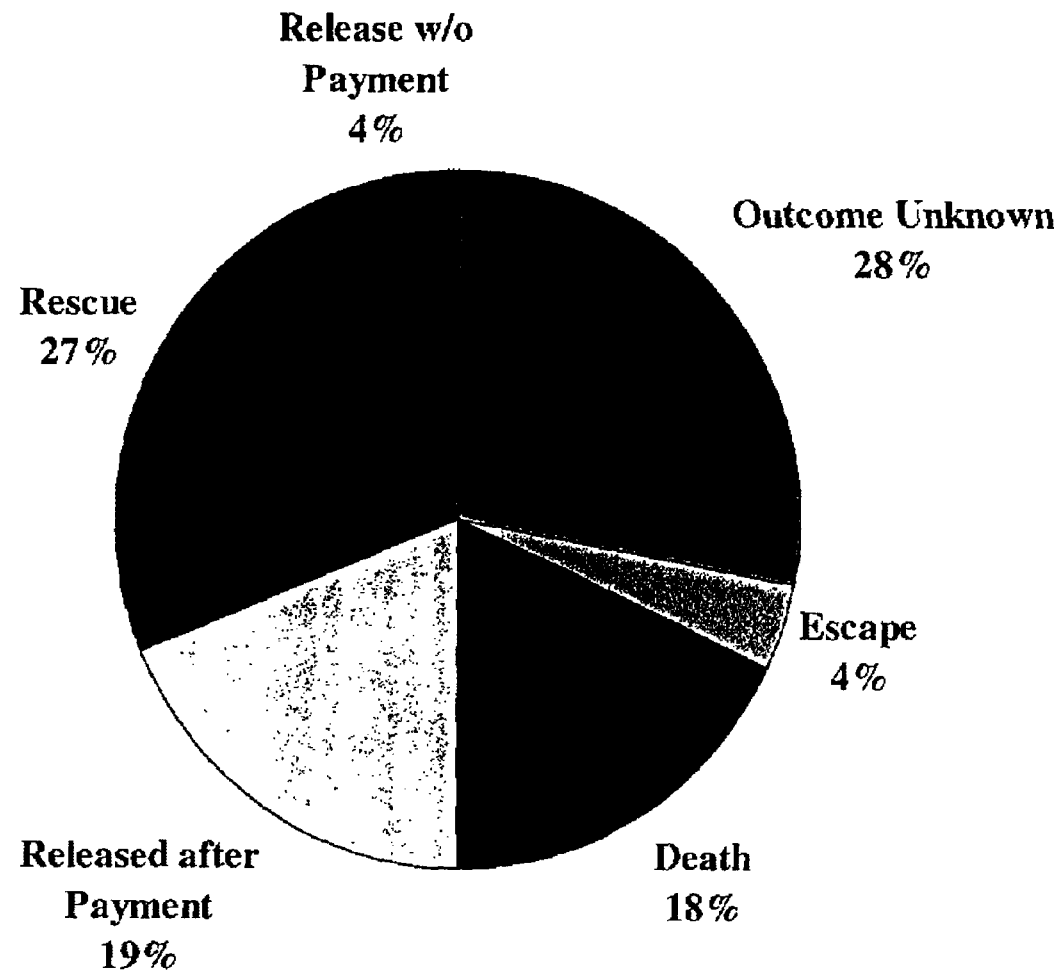
Kidnaps of Foreign Nationals from 1992 Payments (US\$ Equivalent)



EC 000050999

Rich

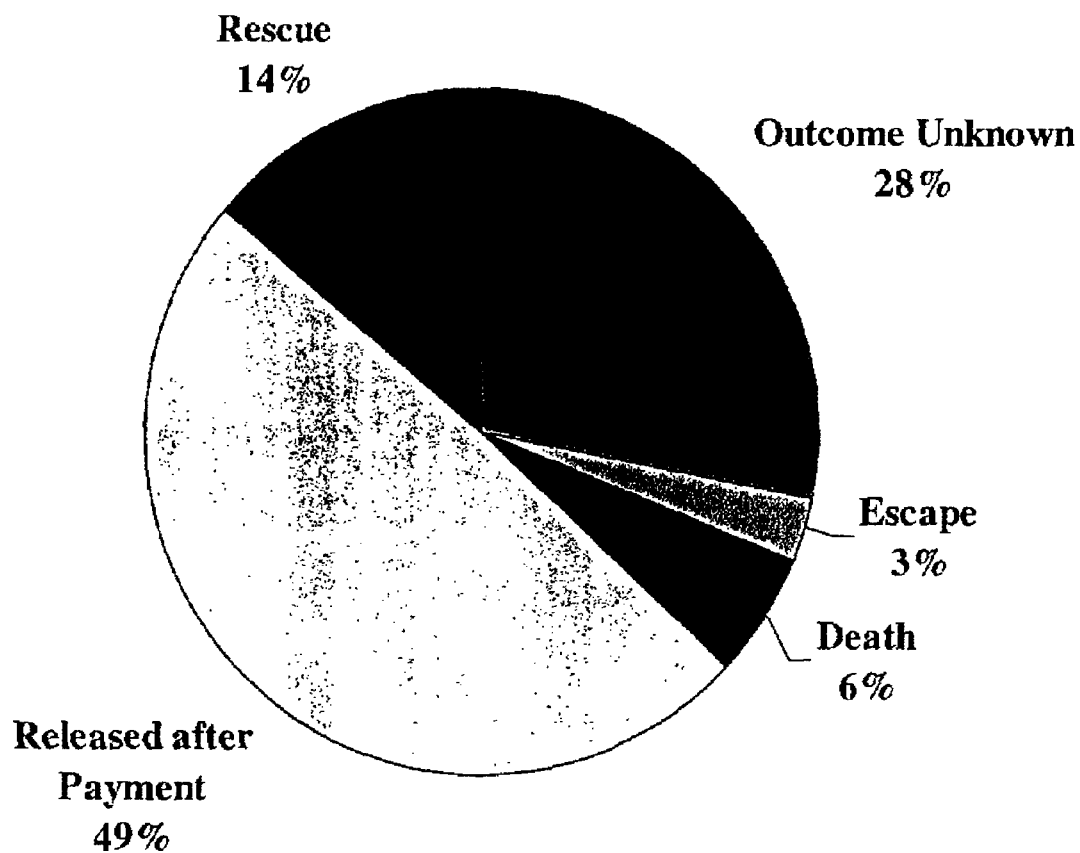
Ending of Negotiations by % Since 1991



EC 000051000

ried

Ending of Expatriate Kidnaps by % Since 1991



EC 000051001

Legal Preparations

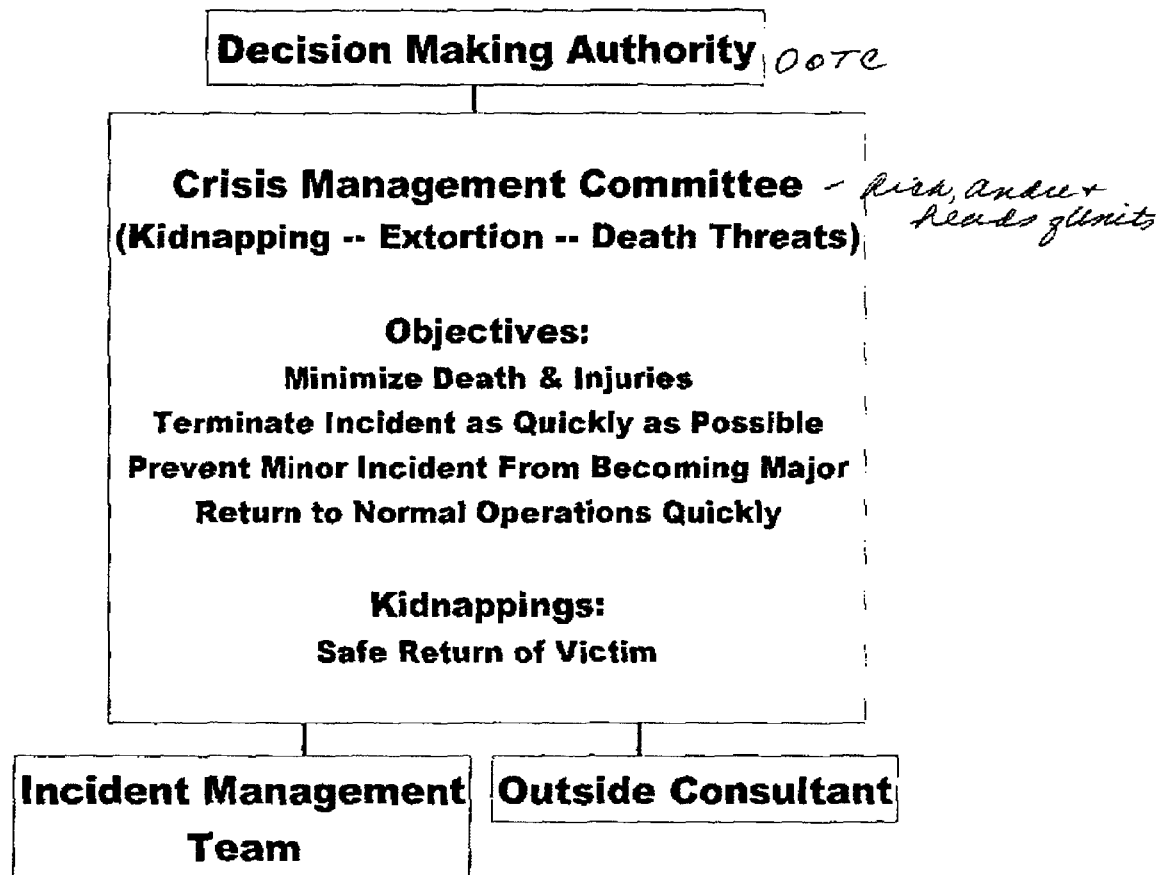
■ Commissioned Report of Kidnap Laws in High Risk Countries

■ "Kidnap Legislation" (April 1997)

- | Level of Threat
- | Relevant Legislation
- | Practical Applications
 - Brazil
 - Colombia
 - Ecuador
 - Guatemala
 - Mexico
 - Venezuela
 - India
 - Philippines

copy

Organizational Preparation



EC 000051003

Causing

Training Preparations

- Crisis Committee Simulations
 - 20 January 1998
 - 2 February 1996
- Crisis Committee Chairman Briefing Session
 - Scheduled (6 November 1998)
- Crisis Committee Chairman Alternate
 - Briefing (5 May 1998)
 - Background
 - Former National Intelligence Officer for Counterterrorism

Causey

Consciousness Raising & Dissemination of Information

- Crisis Committee Chairman Memo to Country Managers (22 June 1998)
- Scheduled Talk on Kidnappings at Management Conference (18/19 November 1998)
- Expat Briefings (by Corporate Security)
- International Bulletin (Weekly, 250 Addressees, by Corporate Security)
- Briefing Books for Travelers (135, by Corporate Security)
- Travel Security Briefings (Corporate Security)
- Avoiding Kidnapping & Hostage Survival Videos (Consultant)

Carey

Insurance

EC 000051006

Caution

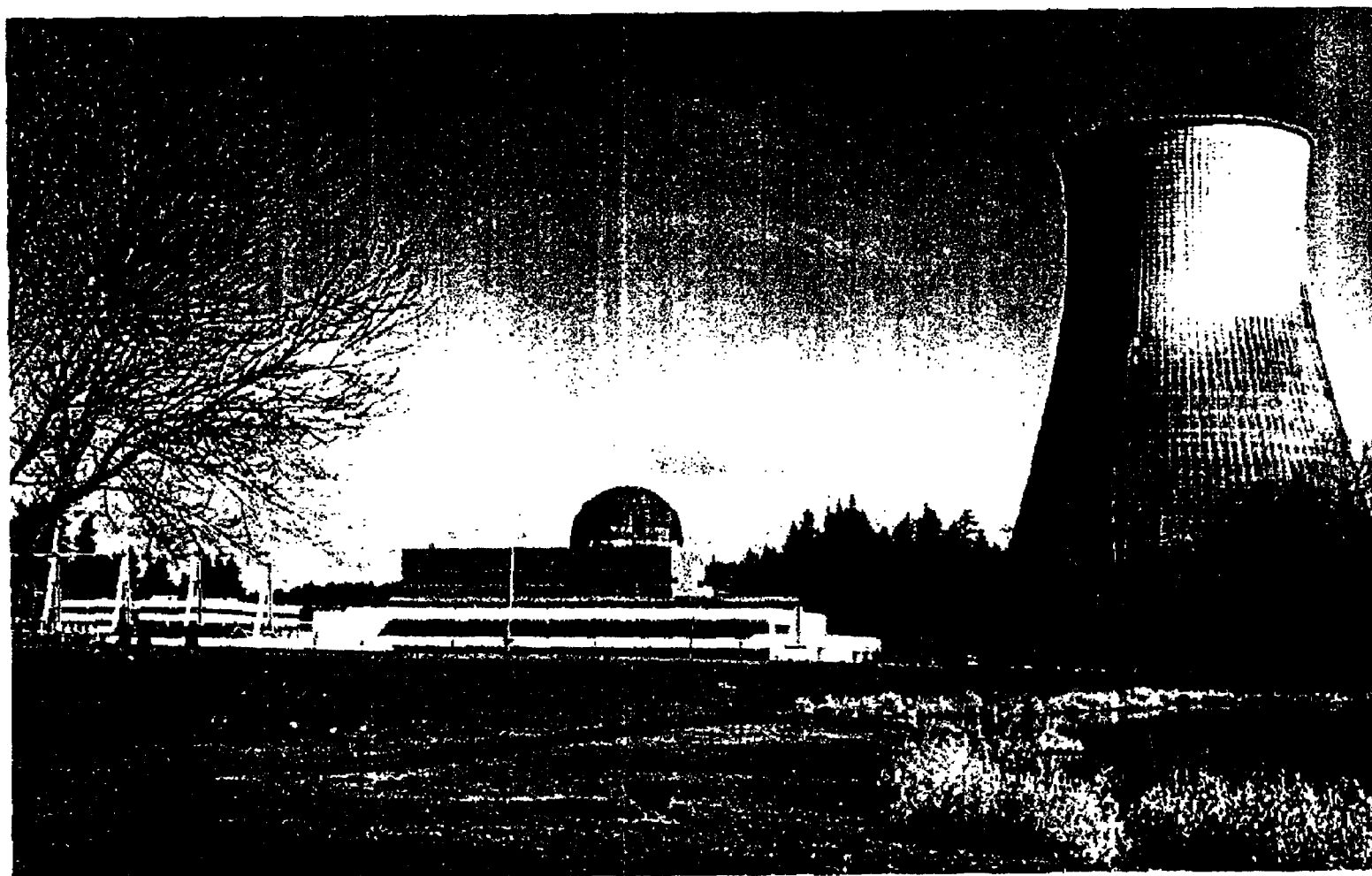
Agenda Item 4

EC 000051007



TROJAN NUCLEAR PLANT DECOMMISSIONING PROJECT

1998 FALL UPDATE



EC 000051008



DECOMMISSIONING PERSPECTIVE

Industry

- Trojan Was First Large (>1000MW) US Operating Reactor to Shutdown Early Based on Economics
- Question at that Time was When to Proceed with Decommissioning
- Economics Favored Early Decommissioning

Nuclear Regulation

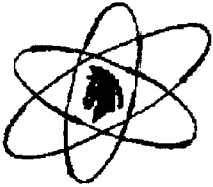
- NRC Decommissioning Rule Did Not Exist at Shutdown. Was Effective August 28, 1996

Oregon Regulation

- Oregon Administrative Rules Related to Decommissioning Implemented June 28, 1994
- Rate Case UE-88 in 1995 Allowed 100% Recovery of Decommissioning Costs, 87% Recovery of Investment

EC 000051009

Walter B.



TROJAN DECOMMISSIONING STRATEGY

Project Management

- PGE Would Project Manage the Decommissioning
- Area by Area Decommissioning Cost Estimate
- Detailed Work Breakdown Structure
- Project Management Infrastructure

Labor Costs

- Performance Incentives for Decommissioning Contractor and Employees
- Special Labor Arrangements Permit Non-Skilled Labor to Perform Decommissioning Activities

Radioactive Waste Disposal Costs

- Radioactive Waste Disposal Rates are Low and Fixed through 2001

Motivation and Retention

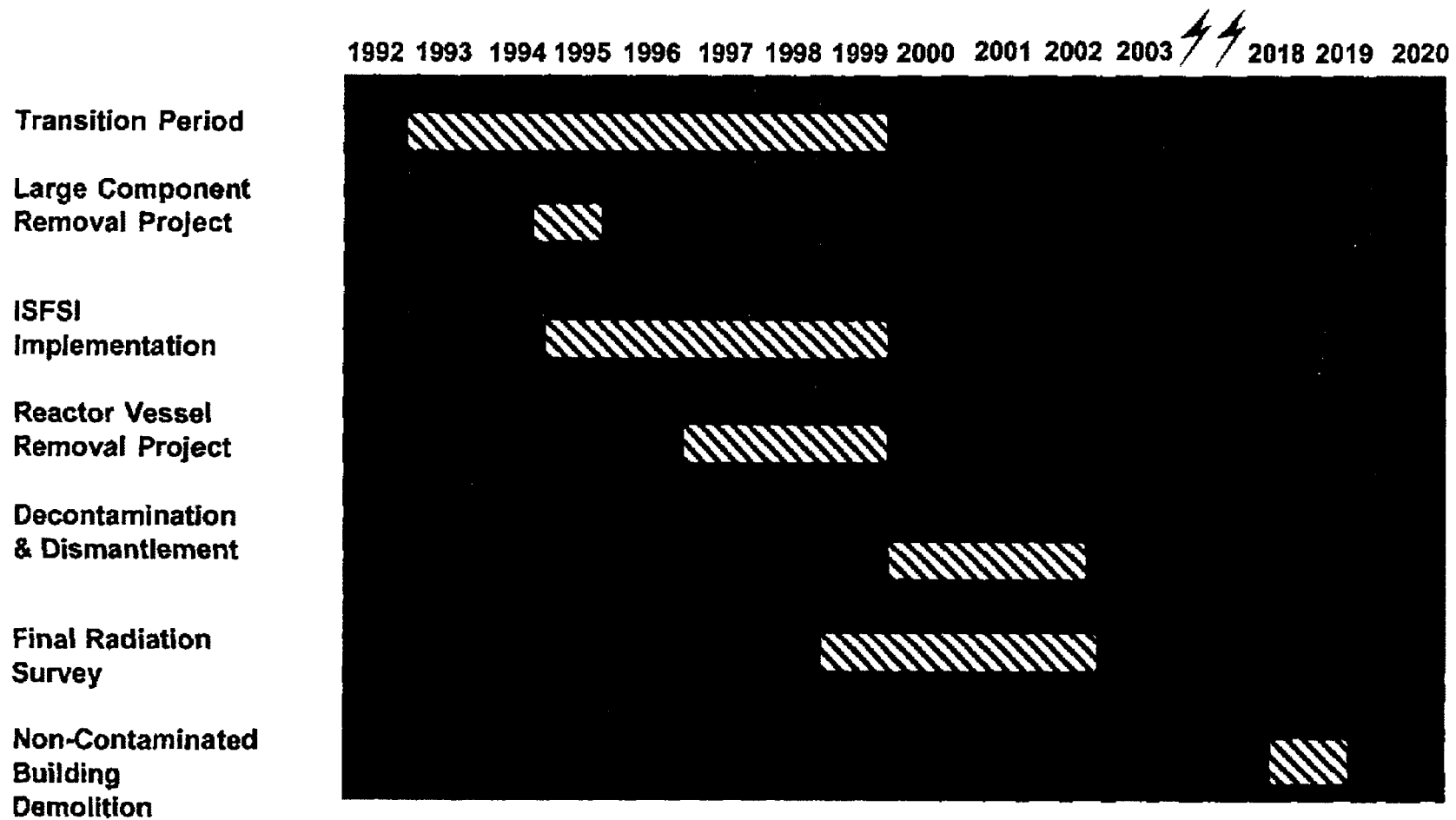
- Trojan Incentive Plan Tied to Key Decommissioning Milestones
- Contracts for Key Personnel

Walter P

EC 000051010



DECOMMISSIONING SCHEDULE

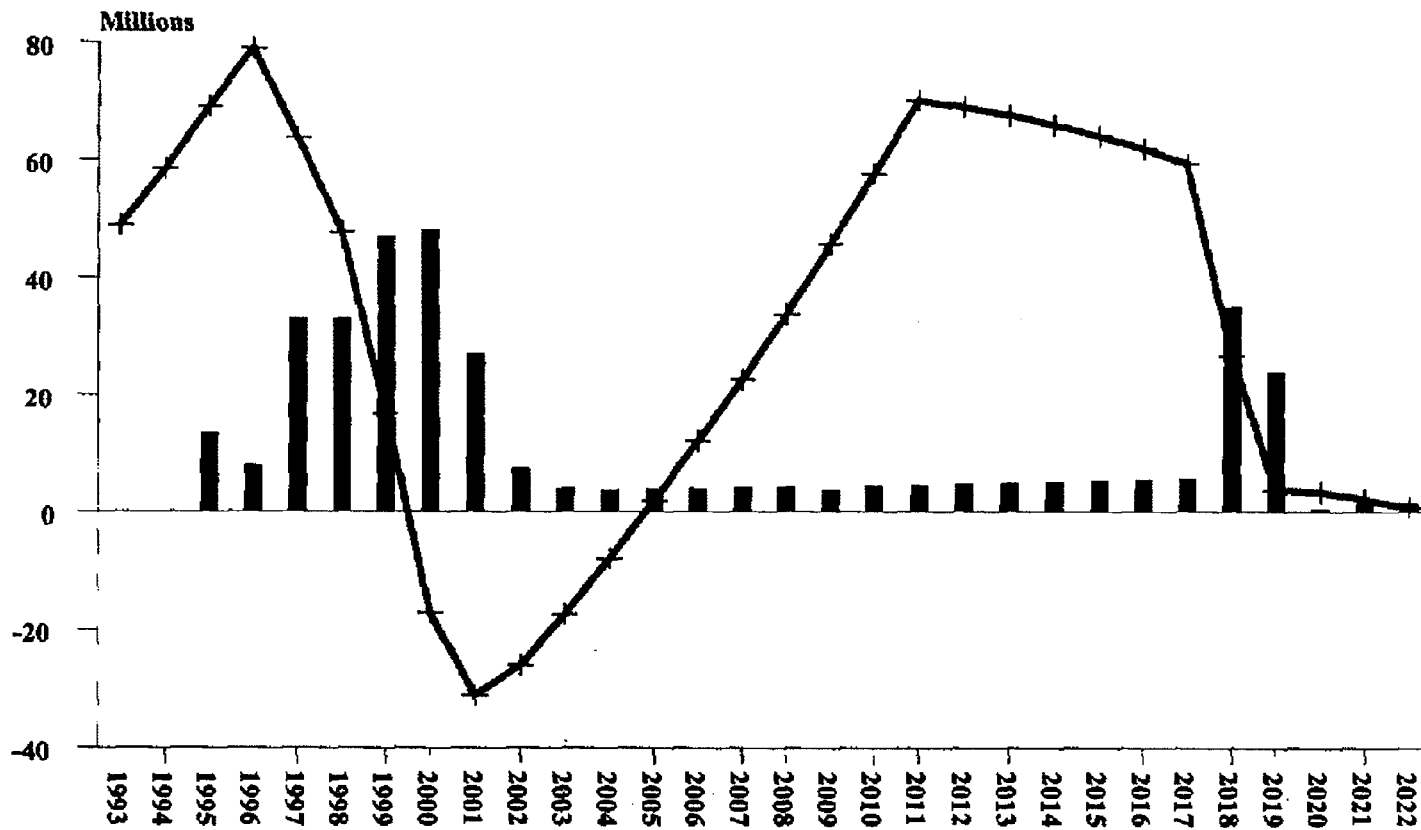


EC 000051011

Steve

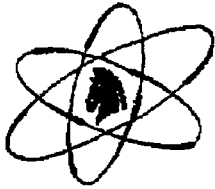


DECOMMISSIONING TRUST FUND EXPENDITURES AND END OF YEAR BALANCE



EC 000051012

steer



DECOMMISSIONING POTENTIAL COST INCREASES

ISFSI Loading Delayed Due to Protracted Regulatory Approvals or Fabrication Delays

- **Potential Increase: \$8-10 Million per Year**
- **Expedite Resolution of Regulatory Issues**
- **Provide Close Oversight of Fabricators**
- **Award Basket Fabrication to Multiple Vendors**
- **Implementation of Modular Spent Fuel Cooling System Facilities Acceleration of Additional Decommissioning Activities**

Reactor Vessel And Internal Removal Project is Delayed or Disapproved

- **Potential Increase: \$1-15 Million**
- **Expedite Resolution of Regulatory Issues**
- **Maintain Containment Building Activities Off of the Decommissioning Project Critical Path. If Segmentation is Required, Contract Award and Fabrication of Tooling Must Commence in Early 1999**

EC 000051013



DECOMMISSIONING POTENTIAL COST INCREASES

Spent Fuel On-Site Beyond 2018 Due to USDOE Delays

- Potential Increase: \$3-5 Million Per Year
- Support High Level Waste Legislation Reform
- Prompt USDOE to Provide Priority Acceptance of Spent Fuel From Permanently Shutdown Reactors
- Pursue Litigation/Settlement with USDOE to Compensate PGE for Increased Costs
- Seek Rate Recovery if Costs are Not Recovered From USDOE

Radwaste Disposal Costs Escalate

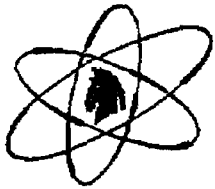
- Potential Increase: \$1-5 Million
- Current Prompt Decon Strategy Disposes of Radwaste While Rates are Low and Rate Increases are Regulated
- Mitigate Impact by Improving Waste Package Density, Volume Reduction and Material Decontamination

MARSSIM Final Termination Survey Technical Debate Slows Survey Process

- Potential Increase: \$1-5 Million
- Delay Surveys to End of Project
- Seek NEI Support to Resolve Issues

Steer

EC 000051014



DECOMMISSIONING POTENTIAL COST DECREASES

ISFSI Operating Costs Lower Than Estimated

- **Potential Savings: \$1 Million Per Year for up to 20 Years**
- **May be Offset by DOE Delay in Accepting Fuel**

Embedded Pipe Decontaminated and Not Physically Removed

- **Potential Savings: \$1-10 Million**
- **Due to Change to Dose Pathways Site Release Criteria**

Non-Radiological Decontamination Less Expensive than Budget

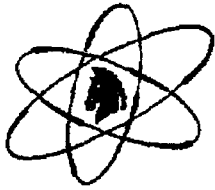
- **Potential Savings: \$1-8 Million**
- **Due to Change to Dose Pathways Site Release Criteria**

Building Demolition Costs Less than Projected

- **Potential Savings: \$1-6 Million**
- **More Efficient Demolition Techniques Employed**

EC 000051015

Steer



REACTOR VESSEL AND INTERNALS REMOVAL PROJECT STRATEGY

Radiation Exposures Reduction

➤ Occupational Workers	56%
➤ Transportation Workers	92%
➤ Burial Site Workers	96%
➤ General Public	96%

Increased Transportation Safety by Reducing Shipments From 50 Unrestricted Truck Shipments to 1 Controlled Barge/Land Shipment

Reduces Risk of Cutting Operations 1) Personnel Contaminations, 2) Airborne Problems, 3) Generation of Radioactive Wastes and 4) Plant Cleanup Concerns

Reduces Costs by \$15 Million

Removes Concern of Long Term Storage of Greater Than Class C (GTCC) Waste; Eliminates GTCC Waste Disposal Costs

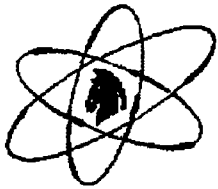
Capitalizes on Similarity of Large Component Removal (LCR) Project

Dianned for questions -

*Jarvis - which risk are you the most worried abt?
Steve: DOE delay could cost us \$35 mm -*

Steve

EC 000051016



REACTOR VESSEL AND INTERNALS REMOVAL PROJECT RISKS

Project Approval Delayed; Legal Challenges Impact Project

- **Use Multiple Shifts, Overtime, Parallel Activities to Recover Delay Time**

Unable to Meet August 1999 Shipment Date

- **Store Reactor Vessel Outside of Containment Building to Allow Dismantlement and Decontamination of Refueling Cavity and Refueling Water Storage Tank. Make Reactor Vessel Shipment in July 2000.**

Project Disapproved by Washington Department of Health, Oregon Office of Energy or Nuclear Regulatory Commission

- **Determine Basis of Disapproval and Revise Project Approach or Provide Additional Information**
- **Proceed With Alternative Cutting Up of Reactor Vessel Internals, One Piece Disposal of Reactor Vessel and Storage of Greater Than Class C Waste On-Site**

EC 000051017



INDEPENDENT SPENT FUEL STORAGE INSTALLATION (ISFSI) STRATEGY

Provide Lowest Fuel Management Costs Until USDOE Accepts Spent Fuel for Repository

- > “Dual Purpose System”- Licensed for Storage & Transportation (Unique). Fuel is Packaged and Licensed for Shipment**
- > Capital Investment Offset by Lower Dry Storage O&M (Approximate Differential \$6 Million Per Year)**

Protect PGE Against Further Delays in USDOE Geologic Repository Development

Allows Full-Scale Dismantlement and Decontamination

System Has No Moving Parts

EC 000051018



INDEPENDENT SPENT FUEL STORAGE INSTALLATION (ISFSI) RISKS

BNFL Fuel Solutions Does Not Perform Satisfactorily

- **PGE Provides Management and Direction**
- **BFS Forfeits Incentives**
- **BFS Breach of Contract; PGE Continues Project With Own Resources**

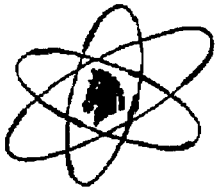
ISFSI Approval Delayed Past April, 1999

- **Continue Remaining Decommissioning Work In Fuel Building**
- **Expedite NRC/State Project Approval**

Fabrication Delays Impact Fuel Loading Operations

- **Utilize Two Basket Fabricators**
- **Provide Full Time In-Shop PGE Engineering and QC Oversight**

EC 000051019



INDEPENDENT SPENT FUEL STORAGE INSTALLATION (ISFSI) RISK (Contd)

State of Oregon Does Not Permit Prompt Decommissioning of Spent Fuel Pool Due to NRC Delays in Review and Approval of Part 71 Transportation Application

- **Continue Remaining Decontamination Work**
- **Expedite NRC Approvals of Transportation Certificate of Compliance**

NRC Requires Ultrasonic Inspection of Basket Closure Welds vs. Surface Inspection

- **Trojan Would Develop UT Inspection Technology Prior to Use**

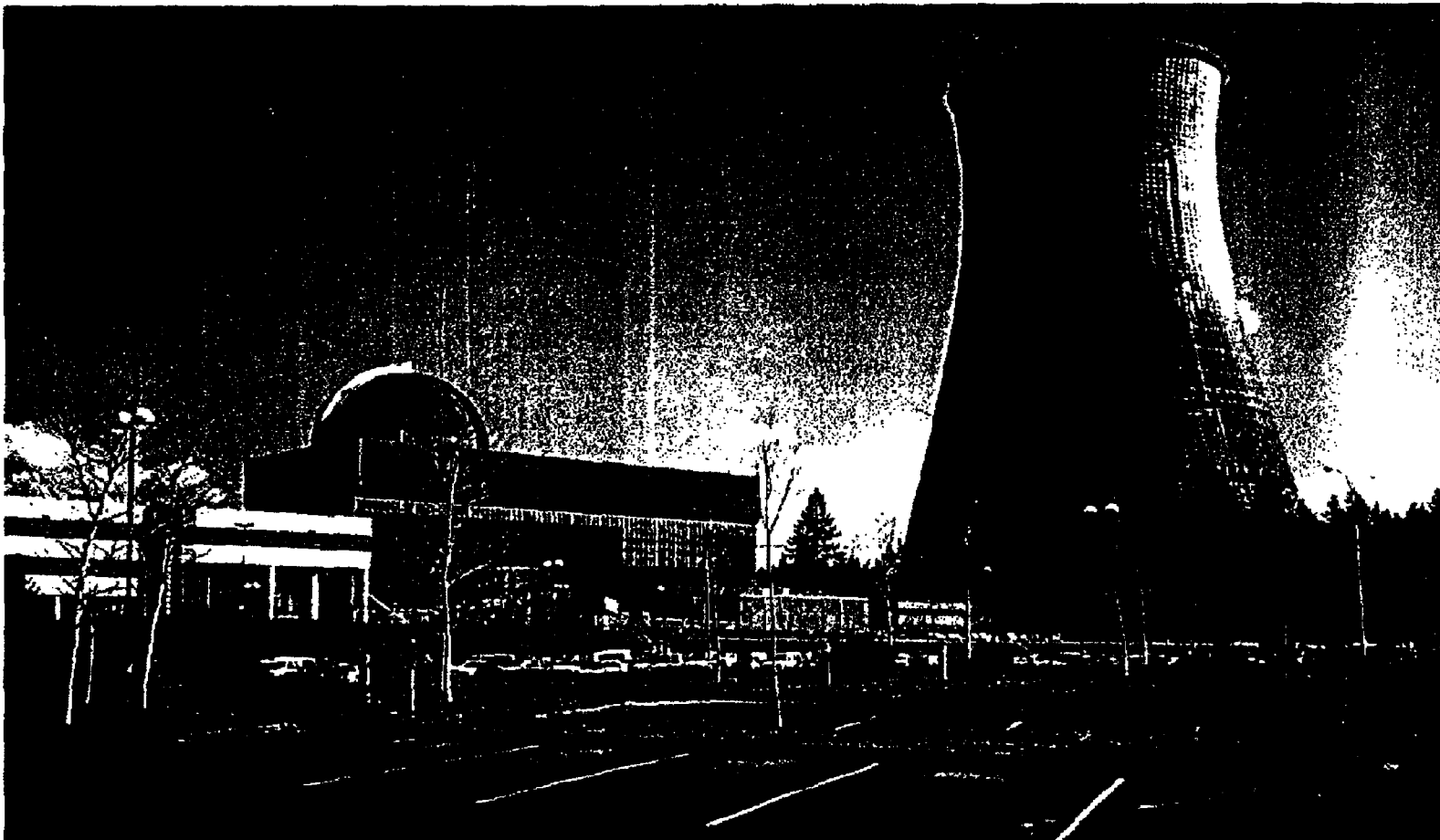
Fuel Loading Delays Experienced

- **Minimized through Readiness Reviews, Pre-Operational Test Program**
- **Potential Reduced by Lessons Learned Program, Site Visits to Other Plants**
- **All Critical Equipment Has Redundancy**
- **Increase Resources (Crew Size, Number of Crews)**

EC 000051020



TROJAN NUCLEAR PLANT DECOMMISSIONING INTRODUCTION



EC 000051021



TROJAN

Plant Owners

- Portland General Electric (67.5%)
- Eugene Water and Electric Board (30%)
- Pacific Power and Light Company (2.5%)
- BPA has Joint Billing Agreement with EWEB for its Ownership Share

Location: 634 Acres Including Industrial Areas, Recreational Park and Office Buildings
Adjacent to the Columbia River, 42 Miles North of Portland

Size: 1130 Mwe (Net)

Type: 4-Loop Westinghouse PWR 3423 MW (th)

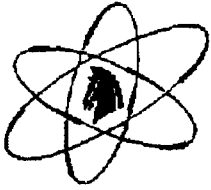
History:

- Construction Start: February 1970
- Received Operating License: November 1975
- Initial Criticality: December 1975
- Commercial Operation: May 1976
- Permanent Shutdown: January 1993
- Possession Only License May 1993
- License Expiration: February 2011

Const

Electrical Generation: \$83.5 Billion KWh

EC 000051022

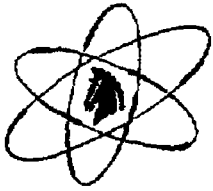


TROJAN (Contd)

Reason for Premature Retirement:

- Least Cost Planning Process Conducted in 1990 and 1992
- Plentiful, Low-Cost Natural Gas Supplies
- A Regional Surplus of Inexpensive Hydroelectric Power
- Reduced Expectations of Plant Reliability
- Escalating Steam Generator Inspection and Repair Costs
- Regulatory Uncertainty Regarding the Safety of the Steam Generators

EC 000051023



DECOMMISSIONING REQUIREMENTS

DECOMMISSIONING is the Removal of Radioactivity to a Level that Permits Release of the Property for Unrestricted Use and Termination of the License

DECON is the Prompt Removal or Decontamination of Facilities to a Level that Permits Release for Unrestricted Use Shortly After Cessation of Operations

SAFSTOR is Where the Facility is Placed and Maintained in a Dormant Condition and Decontamination and Dismantlement is Deferred up to Sixty Years

PGE Selected the DECON Alternative due to:

- > Lower NPV Cost (\$435 Million vs. \$490 Million for "Wet SAFSTOR 2018")**
- > Reduced Risk to Escalations in Radioactive Waste Disposal Costs or Future Unavailability of a Disposal Site**
- > Minimizes the Duration of Low-Level Radioactive Waste at the Site**

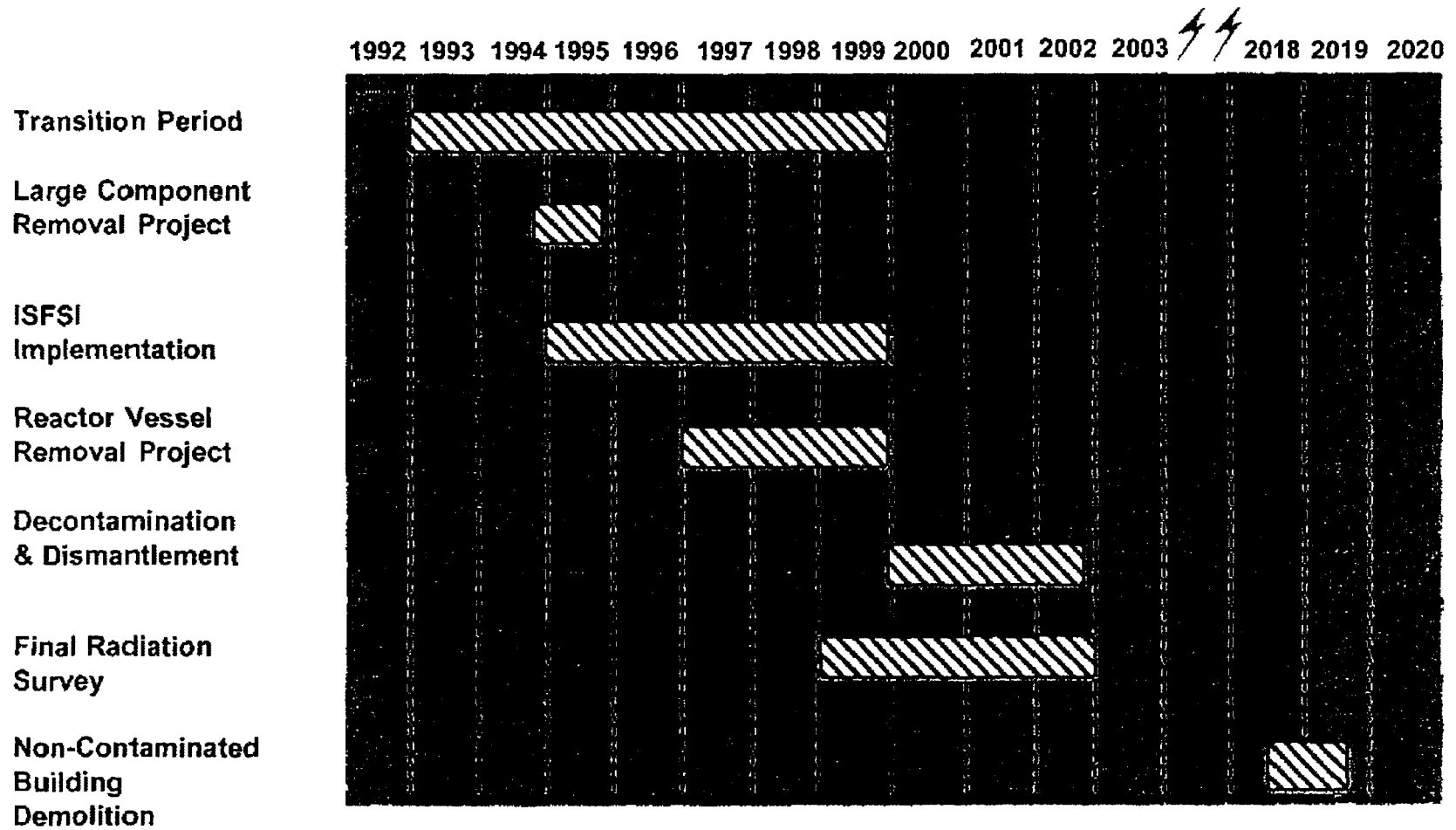
PGE Selection of DECON Alternative Reviewed and Approved by the Oregon Office of Energy

PGE Selection of DECON has been Reviewed by the Nuclear Regulatory Commission per Approval of the Trojan Decommissioning Plan

EC 000051024



DECOMMISSIONING SCHEDULE



EC 000051025



DECOMMISSIONING STATUS

Licensing

- Decommissioning Plan (D-Plan) Approved by NRC and Oregon Office of Energy
- Post Operating License (POL) Issued by NRC
- Permanently Defueled Technical Specifications (PDTS) Issued by NRC
- RVAIR Project NRC Approval Expected in October 1998
- ISFSI Part 72 License Expected in April 1999
- State Rulemaking in Progress for Site License Termination Criteria
- Site Termination Survey Plan Being Reviewed by NRC
- License Change Amendments to Reflect Fuel in Dry Storage Submitted to NRC
- License Termination Scheduled for 2002

Activities

- Steam Generators, Pressurizer, RCS Piping and Pumps Removed
- Completed All RVAIR Project Field Activities Supporting Grouting
- ISFSI Components On-Site November 1998 to Support Pre-Operational Testing
- Spent Fuel Pool Cooling by Modular Air Cooled System
- Equipment Removal 65% Complete
- Commenced Embedded Pipe Remediation
- Preparing for Surface Decontamination Phase

EC 000051026



DECOMMISSIONING TRUST FUND

- Trojan Co-Owners Separately Collect and Maintain Funds for the Decommissioning of the Plant
- ~~The PGE (and PacifiCorp) Funds are Collected Through Rates and Deposited in an External Trust Fund per 10CFR50.75. BPA, as a Governmental Agency, Self-Guarantees their Decommissioning Funds and Pays Expenses on an On-Going Basis~~
- Per 1995 PUC Order Related to the 1993 General Rate Request the Company is Authorized to Collect \$14M Annually Through 2011 from Customers for Decommissioning Costs
- Because Trojan was Shutdown Prematurely, the Trust Funds Currently Contain only a Portion of the Total Amount Needed for Prompt Decommissioning
- Prior to Commencing DECON, Each Co-Owner Must Secure a Financial Assurance Mechanism, and it Must be Maintained Until Termination of the Part 50 License
- Co-Owner's Trust Fund Balance is Projected to be Reduced to a Point Where it will be Necessary to Provide Bridging Funds to Complete Activities

EC 000051027



DECOMMISSIONING COST ESTIMATE (1997 Dollars - PGE SHARE)

Radiological Decommissioning

Large Component Removal	\$12,095,143
RX Vessel & Internals Removal	\$17,480,961
Building Decontamination	
Containment	\$ 8,149,230
Fuel/Auxiliary Building	\$14,148,300
Outside Structures	\$ 1,219,111
LLRW Disposal	\$19,724,105
Staff	\$35,126,249
Corporate Overheads	\$21,939,946
Materials/Services/Plant Mods	\$17,581,905
Site Termination Survey	<u>\$12,770,015</u>
	\$160,214,965

EC 000051028



DECOMMISSIONING COST ESTIMATE

Dry Fuel Storage

ISFSI Project	\$37,173,794
ISFSI Operations	\$47,211,248
ISFSI Decommissioning	<u>\$ 5,300,874</u>
	\$89,685,916

Non-Radiological Decommissioning

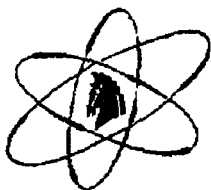
Remediation	\$ 9,579,117
Building Demolition	\$23,700,859
Materials	\$ 363,392
Staff	<u>\$ 2,381,476</u>
	\$36,024,843

Finance

Letter of Credit	\$ 496,000
Bridge Loan	<u>\$11,169,000</u>
	\$11,665,000

<u>Total Trojan Decommissioning</u>	<u>\$297,590,724</u>
-------------------------------------	----------------------

EC 000051029



SITE RADIOLOGICAL CHARACTERIZATION

Quantities of Radwaste

- Structures
- Systems
- Activation

Activity (Ci)

0.031
1070.52
4,200,000.0

Volume (Cf)

22,502
19,220
10,374

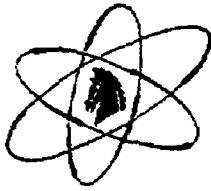
Projected Radiation Exposure

- Steam Generators
- Reactor Vessel and Internals
- Dismantlement
- Fuel Management
- Fuel Transfer to ISFSI
- Total

(Person-Rem)

138
50
336
9
58
591

EC 000051030



SITE RADIOLOGICAL RELEASE CRITERIA

Current Site Release Criteria

- Surface Contamination: 5000 dpm/100cm² (RG1.86)
- Direct Radiation: 5 MicroRem/Hr above Background
- Soil/Groundwater: <15 mRem/Yr

Proposed Site Release Criteria

- Restrict Dose to an Average Member of the Public Following Unrestricted Release of a Site to a Maximum Total Effective Dose Equivalent (TEDE) Limit of 25 Mrem Per Year for Residual Radioactivity that is Distinguishable from (Natural and Anthropogenic) Background.

EC 000051031



REACTOR VESSEL AND INTERNALS REMOVAL PROJECT OVERVIEW AND ALTERNATIVES

Shipment of Reactor Vessel with Internals Installed

- **Prepare as Own Shipping Package**
- **Remove from Containment**
- **Transport from Trojan to the US Ecology Facility**
- **Disposal at US Ecology Disposal Site**

Alternatives

- **Segment Reactor Vessel Internals**
- **Storage of Highly Activated Material in ISFSI**
- **Shipment of Remainder for Disposal**
- **Whole or Segmented Removal of Reactor Vessel for Disposal**

EC 000051032



REACTOR VESSEL AND INTERNALS REMOVAL PROJECT STRATEGY

Radiation Exposures Reduction

➤ Occupational Workers	56%
➤ Transportation Workers	92%
➤ Burial Site Workers	96%
➤ General Public	96%

Increased Transportation Safety by Reducing Shipments From 50 Unrestricted Truck Shipments to One Controlled Barge/Land Shipment

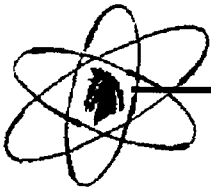
Reduces Risk of Cutting Operations 1) Personnel Contaminations, 2) Airborne Problems, 3) Generation of Radioactive Wastes and 4) Plant Cleanup Concerns

Reduces Costs by \$15 Million

Removes Concern of Long Term Storage of Greater Than Class C (GTCC) Waste; Eliminates GTCC Waste Disposal Costs

Capitalizes on Similarity of Large Component Removal (LCR) Project

EC 000051033



REACTOR VESSEL AND INTERNALS REMOVAL PROJECT STATUS

Licensing

- Submitted Safety Analysis Report and License Application to NRC
- Responded to Requests for Additional Information (RAIs)
- Submitted Revised Safety Analysis Report (SAR) to NRC
 - Staff Position Paper Submitted to Commissioners Oct 05, 1998
 - 10 Day Review Period
- Transportation Safety Plan Submitted to Oregon Office of Energy (OOE)
- Decommissioning Plan Change Reflecting RVAIR Submitted to OOE
 - EFSC Vote Expected Oct 16, 1998
- Submitted Exemption Request to US DOT
- Radiological Dose Pathways Analysis Submitted to Wash Dept of Health
 - WDOH Technical Evaluation Report Written, Executive Approval Expected October 1998

Activities

- All Major Contracts (Heavy Haul, Packaging, Large Pipe Cutting, Heavy Lift) Awarded
- Containment Opening Enlarged
- Interior Concrete Cutting Completed
- CRDM Removed
- Barge Constructed and Launched
- Grouting Procedures Finalized

EC 000051034



REACTOR VESSEL AND INTERNALS REMOVAL PROJECT RISK MITIGATION

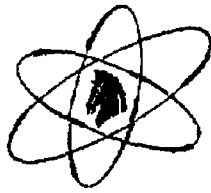
Engineering Analysis Will Also Support One Piece Reactor Vessel Shipment Without Internals

Grouting of Reactor Vessel Will Only Be Conducted After Receiving Regulatory Approvals

Option of Cutting Up the Reactor Vessel Always Maintained

All Major Contracts Allow PGE Termination Without Penalty

EC 000051035



PHYSICAL ASPECTS OF THE TROJAN REACTOR VESSEL

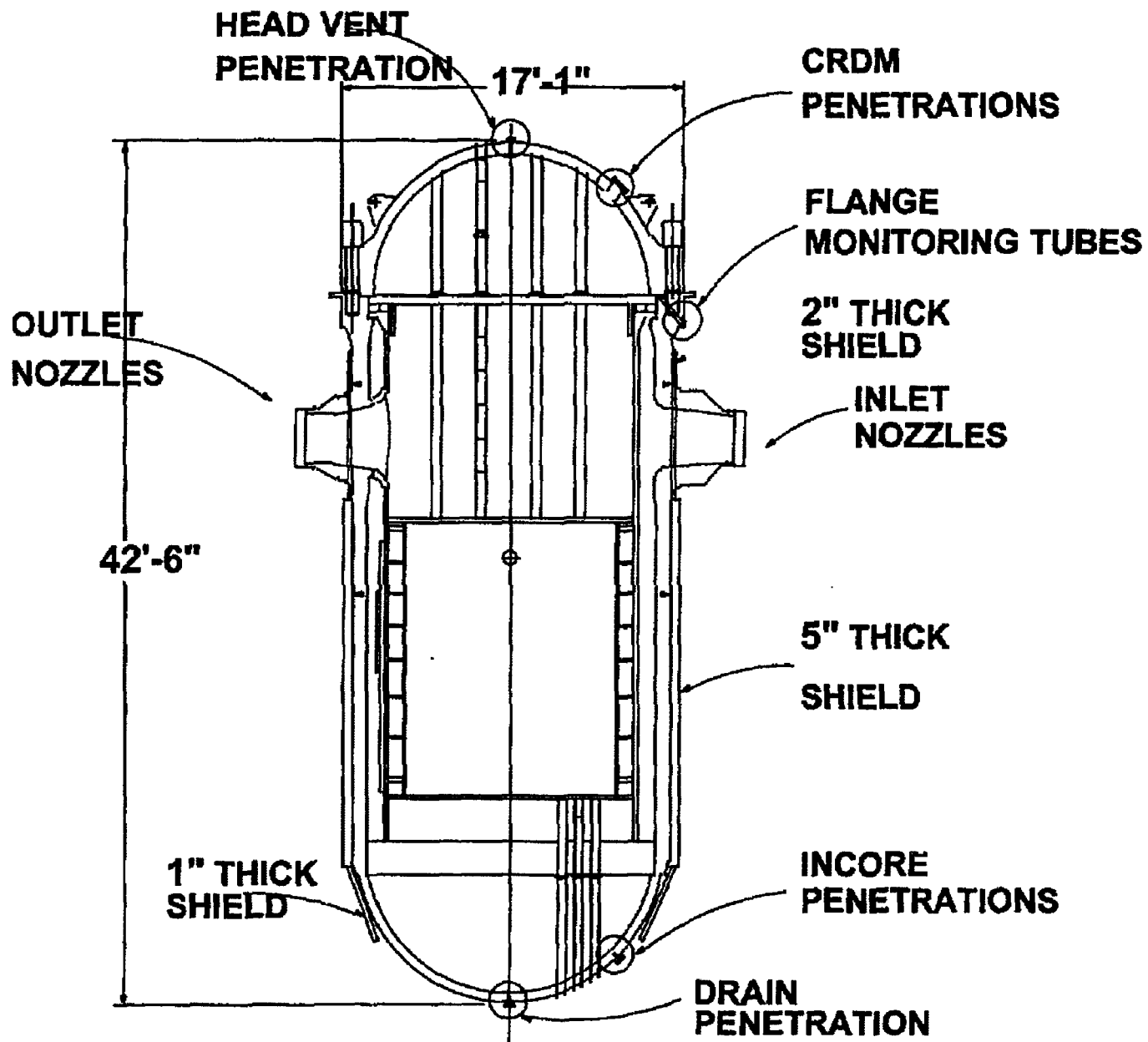
Reactor Vessel

- Height: 42'6"
- Diameter: 17'1" at Head Flange
21'10" at Nozzles
- Wall Thickness: 5 3/8" - 10 1/2"
- Penetrations: 148
- Weight: 633.6 Tons

Reactor Vessel Package

- Welded Closures
- Filled with Low Density Cellular Concrete (LDCC)
- 1 - 5" Shielding
- < 200 MR Contact, < 10 MR at 2 Meter
- 950 Tons (w/o Impact Limiters)
- 8000 FT³
- Plastic Foam Impact Limiters
- 1020 Tons Fully Loaded

EC 000051036



EC 000051037



REACTOR VESSEL AND INTERNALS REMOVAL PROJECT SCHEDULE

1998

October

- Washington Dept of Health Approval of Burial 10/04
- Oregon Energy Facility Siting Council Approval of DSAR 10/16
- Oregon EFSC Approval of Transportation Safety Plan 10/16
- NRC Staff Recommendation of Transportation 10/14
- NRC Issue Approval in Federal Register 10/28
- PGE Review and Approval of Transportation Procedures 10/22

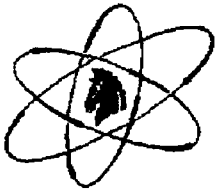
November

- Install and Tension RV Head Studs 11/02
- Drain Water from Reactor Vessel 11/09
- US DOT Approval of Exemption Request 11/16
- Complete Erection of LDCC Grout Plant and Grout Chiller 11/23
- Mobilize RV Nozzle Cutting Contractor 11/30

December

- Complete Grouting of RV 12/10
- Complete Cutting RV Nozzles 12/21

EC 000051038



REACTOR VESSEL AND INTERNALS REMOVAL PROJECT SCHEDULE (Contd)

1999

January

- Mobilize RV Package Prep Contractor 01/03
- Start Welding of Reactor Vessel Closure Plates 01/04
- Mobilize Heavy Lift Contractor 01/11
- Commence Barge Slip Dredging 01/15

February

- Commence Fabrication of Cradle Assembly 02/01
- Complete Barge Slip Preparations 02/28

March

- Install Down Ender, Rails and Tall Tower Lift Device 03/11
- Begin Reactor Vessel Lift 03/29
- Commence Installation of Reactor Vessel Shielding 03/29

April

- Complete Down Ending of Reactor Vessel 04/28

May

- Commence US Ecology Burial Trench Excavation 05/10

EC 000051039



REACTOR VESSEL AND INTERNALS REMOVAL PROJECT SCHEDULE (Contd)

1999

June

- Complete Closures and Shielding of RV 06/03
- Transporter and Haul Route Load Test 06/03
- Decontaminate and Coat Reactor Vessel 06/07
- RV Lowered on Transporter 06/17
- Complete US Ecology Burial Trench Construction 06/21

July

- Complete Installation of Reactor Vessel Tie-Downs 07/12
- Washington DOH Approval of Burial Site 07/28
- Transport RV to Barge Slip, Load on Barge 07/29
- Transport RPV to US Ecology 07/31

August

- Place RV in Burial Trench 08/05

EC 000051040



INDEPENDENT SPENT FUEL INSTALLATION (ISFSI) PROJECT BACKGROUND AND OBJECTIVES

Dry Fuel Storage System

- **Dual-Purpose (Storage and Transportation) System Chosen for Trojan**
- **Allows for Ultimate Removal of Spent Nuclear Fuel from Trojan Without the Need to Return to Spent Fuel Pool and with no Further Handling of Fuel**

Objectives

- **Safely Store Trojan Spent Fuel**
- **Facilitate Decommissioning**
- **Align with DOE Fuel Strategy (MPC)**
- **Minimize Trojan O&M**
- **Prepare Trojan Spent Fuel for DOE Acceptance**

EC 000051041



INDEPENDENT SPENT FUEL STORAGE INSTALLATION (ISFSI) STRATEGY

Provide Lowest Fuel Management Costs Until USDOE Accepts Spent Fuel for Repository

- > “Dual Purpose System”-Licensed for Storage and Transportation (Unique). Fuel is Packaged and Licensed for Shipment**
- > Capital Investment Offset by Lower Dry Storage O&M (Approximate Differential \$6 Million Per Year)**

Protect PGE Against Further Delays in USDOE Geologic Repository Development

Allows Full-Scale Dismantlement and Decontamination

System Has No Moving Parts

EC 000051042



INDEPENDENT SPENT FUEL STORAGE INSTALLATION (ISFSI) STATUS

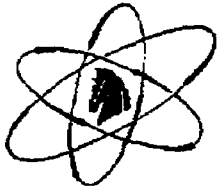
Licensing

- Submitted Safety Analysis Report and License Application to NRC
- Responded to 1st & 2nd Requests for Additional Information (RAIs)
- Submitted Revised Safety Analysis Report (SAR) to NRC
- NRC Technical Review Concluded
- Safety Evaluation Report Expected Approval by April 1999

Activities

- Steam Reforming and Fuel Debris Capsule Loading Completed
- Spent Fuel Pool Fuel Inspections Completed
- Concrete Storage Pad & Access Road Constructed
- Transfer Stations Constructed
- Security Fences and Systems Installed
- Procedure Drafts Completed
- Vacuum Drying Equipment On-Site
- Robotic Weld Equipment On-Site
- Selected ISFSI Staff Specialists
- Impact Limiters Constructed and On-Site
- Basket Prototype Constructed

EC 000051043

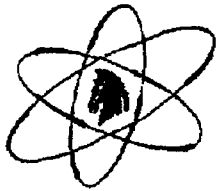


INDEPENDENT SPENT FUEL STORAGE INSTALLATION (ISFSI) PROJECT RISK MITIGATION

BNFL Fuel Solutions Contract

- **Design Engineering Fixed Price**
- **BNFL Assumes Full Cost of Transportation License**
- **Fixes the Price of the Metal Baskets**
- **Equally Shares Costs Associated With Design Changes Occurring During Fabrication**
- **Allows PGE Cancellation Without Penalty**
- **Allows Takeback of Workscope Without Penalty**
- **Allows Lease Not Purchase of Transportation System**
- **Has Long Term (50Years) Warranty**
- **Allows PGE to Have All Design Documents to Complete Project if BNFL is Unable to Perform**
- **Requires BNFL to Maintain Part 71 License**
- **Phased Authorization of Project Activities**

EC 000051044



PHYSICAL ASPECTS OF INDEPENDENT SPENT FUEL STORAGE INSTALLATION (ISFSI) COMPONENTS

Transfer Cask

- | | |
|-----------------------|----------|
| ➤ Loaded (wet w/fuel) | 105 tons |
| ➤ Height | 16 feet |
| ➤ Width | 9.5 feet |

Basket

- | | |
|-----------------------|----------|
| ➤ Loaded (wet w/fuel) | 43 tons |
| ➤ Height | 15 feet |
| ➤ Width | 5.5 feet |

Concrete Cask

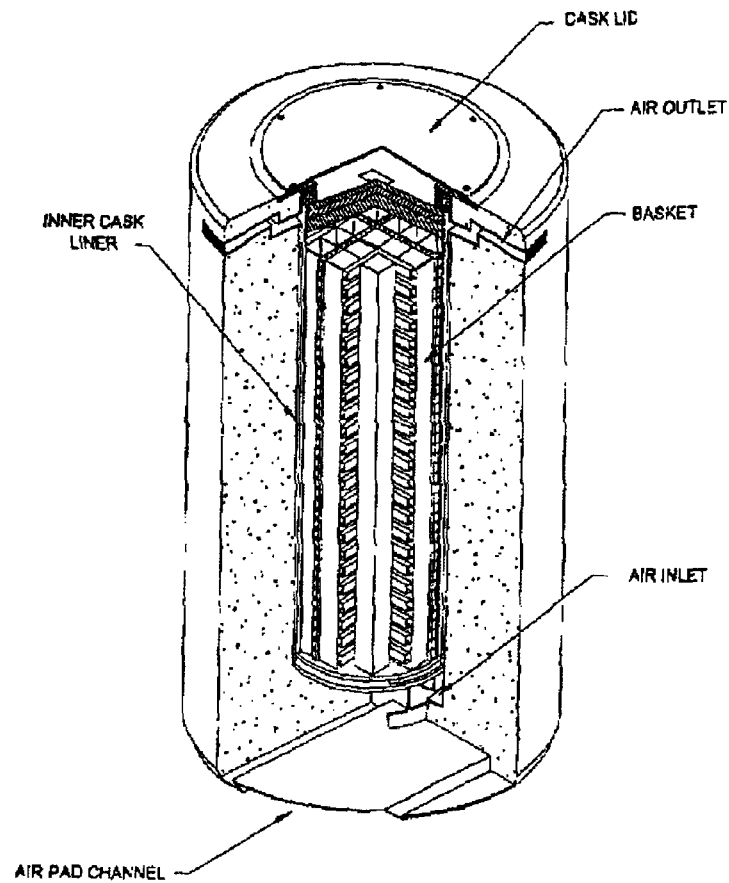
- | | |
|-----------------------|-----------|
| ➤ Loaded (wet w/fuel) | 145 tons |
| ➤ Height | 17.5 feet |
| ➤ Width | 11 feet |

Storage Pad

170 feet x 105 feet

EC 000051045

INDEPENDENT SPENT FUEL STORAGE INSTALLATION (ISFSI) CONCRETE CASKS



EC 000051046



INDEPENDENT SPENT FUEL STORAGE INSTALLATION (ISFSI) SCHEDULE

1998

October

- OOE Issues Staff Report and Public Notice 10/04
- Award Initial Basket Fabrication Purchase Order 10/05
- Commence Fabrication of Overpack 10/05
- Failed Fuel Cans Released for Fabrication 10/09
- Basket Prototype Shipped from Hi Tech 10/15
- OOE Conducts Public Workshop 10/28
- Commence Construction of 1st Concrete Cask
10/29
- Installation of Impact Limiters Completed 10/29

November

- Transfer Cask and Yoke On-Site 11/05
- NRC Design Review Complete, Start Safety Evaluation Report 11/12
- All Auxiliary Equipment On-Site 11/12
- Commence Pre-Op Component Testing 11/15
- Complete Cure of 1st Concrete Cask 11/28

December

- OOE Hearing on ISFSI Rule 12/14

EC 000051047



INDEPENDENT SPENT FUEL STORAGE INSTALLATION (ISFSI) SCHEDULE (Contd)

1999

January

- > Weld Procedures and Equipment Available 01/02
- > Complete ISFSI Readiness Audit 01/04
- > Commence 1st Basket Fabrication 01/20
- > EFSC Vote on Rulemaking 01/25
- > Complete Pre-Op Test Runs 01/25

February

- > BNFL Complete and Submit Drop Test Report to NRC 02/09

March

- > NRC Part 72 License Issues 03/03
- > State Rulemaking Complete 03/04
- > Commence NRC Pre-Op Test Program 03/29

April

- > First Basket On-Site 04/01
- > Implement ISFSI Security System, Start 24 Hour Coverage 04/07
- > Commence Fuel Loading 04/12

EC 000051048

**OVERVIEW OF THE STATUS OF THE DECOMMISSIONING
OF THE
TROJAN NUCLEAR PLANT**

Strictly Private and Confidential

Attached is an Executive Summary (Summary) overviewing a meeting held on July 8, 1998 among representatives of Enron and Portland General Electric Company during which the decommissioning of the Trojan Nuclear Plant was critically reviewed and discussed.

The Summary and the documents referenced therein were prepared at the request and under the direction of counsel, are confidential and proprietary in nature, and are afforded protections under the attorney-client privilege. In order to maintain the confidential and privileged nature of the Summary and referenced documents, please do not copy, disseminate or discuss the Summary with any other person.

Please review the Summary prior to the meeting of the Audit Committee. An overview of the Summary and other current aspects of the decommissioning will be presented during the meeting.

EC 000051049

**TROJAN NUCLEAR PLANT
ACTION PLAN AND UPDATE TO FINAL HGP, INC. REPORT**

**EXECUTIVE SUMMARY
(July 8, 1998)**

Overview

On July 8, 1998, representatives of Enron Corp. ("Enron") and its subsidiary, Portland General Electric Company ("PGE"), met in Portland, Oregon to discuss the Final Report issued on March 17, 1998 by HGP, Inc. ("HGP Report"), covering HGP's engagement by Enron to critically review the status of the decommissioning of the Trojan Nuclear Plant ("TNP") from the period July 19, 1996 through October 22, 1997.

Enron had initially engaged HGP to conduct a thorough due diligence review of TNP in conjunction with the merger between Enron and Portland General Corporation which was consummated effective July 1, 1997. As a result of that engagement, HGP issued a "Preliminary Due Diligence Report" on July 19, 1996. The HGP Report serves as an update and supplement to HGP's preliminary report.

The following persons attended the meeting in Portland:

Al Alexanderson	Peggy Fowler	Walt Pollock
Jim Derrick	Ken Harrison	Steve Quennoz
Robert Eickenroht	Doug Nichols	Jack Urquhart

Presentation of the Reports

Walt Pollock and Steve Quennoz presented a detailed review of the status of the decommissioning of TNP, including an update of the events which had occurred since HGP completed its review on October 22, 1997 and issued the HGP Report. Their presentation included providing copies to each attendee of (i) a report prepared under their direction entitled "HGP's Final Report - Enron/PGE Monitoring Project," dated July 7, 1998 (the "Enron/PGE Report"), and (ii) a report prepared by Arthur Andersen entitled "Project Management Review - Trojan Nuclear Plant," dated May 1998 (the "AA Report"). Mr. Pollock and Mr. Quennoz presented in detail the Enron/PGE Report, compared its findings to the HGP Report, and briefly summarized the findings of Arthur Andersen in the AA Report. Following presentation of each matter in the Enron/PGE Report, the attendees discussed the findings of the Reports and the alternatives available to address the matters noted in such Reports.

The AA Report had been commissioned by PGE to review the information, accounting, financial and cost control procedures utilized by PGE in the decommissioning on an independent basis to confirm or deny certain matters disclosed in the HGP Report.

Summary of the Reports

While reference is made to the Reports for a complete description of the matters covered during the meeting, in summary the Enron/PGE Report and the AA Report reflected favorably on the status of the decommissioning and covered five general areas:

- Facts or circumstances which had changed since the date of completion of HGP's review of TNP, including the status of the Reactor Vessel and Internals Removal ("RVAIR"), the Independent Spent Fuel Storage Installation ("ISFSI") and Sierra Nuclear Corporation ("SNC").
- Differences in strategy surrounding choices which Enron/PGE had made with respect to taking or omitting to take certain actions suggested by the HGP Report.
- The adoption of critical review, monitoring and oversight procedures for on-going decommissioning activities.
- Procedures for enhanced communication to regulatory authorities, intervenors, co-owners of TNP and the public, and documentation of same.
- Procedures for enhanced communication to senior Enron management, including the Chairman, President, Enron Board of Directors and/or Audit Committee.

In particular, Mr. Pollock and Mr. Quennoz confirmed the following matters during their presentation:

1. The establishment of a single dedicated nuclear decommissioning executive (Steve Quennoz, Site Executive) and the designation of senior Enron management to oversee the decommissioning process.
2. With TNP management assistance, BNFL completed the acquisition of SNC in April 1998, alleviating the questionable financial and quality control issues surrounding SNC.
3. That the cask design for Trojan has been accepted by BNFL as the premier storage design for spent nuclear fuel. BNFL is currently undertaking to correct deficiencies previously encountered by SNC in the manufacture of casks of an earlier design.
4. The development of an area-by-area cost estimate and scheduling system (including tracking, forecasting, scheduling, analysis and reporting) and specific analysis of the effect of any delays in the decommissioning schedule on the decommissioning budget. Integration of the cost and scheduling systems is expected to be complete in August, 1998.
5. The curtailment of any efforts to utilize TNP personnel to market decommissioning expertise to other Enron projects which would jeopardize the resources available for decommissioning at TNP.

6. The decision to utilize Enron/PGE personnel for decommissioning in lieu of subcontracting the decommissioning on a turnkey basis. Enron/PGE believes that it currently has the expertise, resources and ultimate responsibility to conduct the decommissioning of TNP. Subcontractors will continue to be utilized for selected decommissioning activities.
7. The documentation of major risks and mitigation plans, including from a prudency and third party exposure perspective. Extensive documentation (including both decision making and technical/engineering) is available to support Enron/PGE decommissioning activities from both a prudency and third party exposure perspective, including its on-going activities and judgments made with respect to RVAIR, ISFSI and SNC. The documentation process will be revised to develop action plans on significant risk issues identified during monthly project status meetings, with monitoring of their implementation. The Electric Power Research Institute, an independent industry group with nuclear experience, also will conduct a review of TNP during late 1998.
8. The conduct of on-going high level quarterly and annual reviews by Enron management and the establishment of a process for inviting continuing criticism at TNP aimed at improving the efficiency and safety of the decommissioning process. These procedures will be employed in lieu of the Trojan Oversight Committee, which had provided oversight of PGE decommissioning activities to Enron during the pending Enron/PGC merger.
9. The extensive nature of communications to industry experts, government officials, intervenors, co-owners of TNP and the public with respect to RVAIR, ISFSI, SNC and the final closure plan, and the decision to pursue same on a multi-level (rather than heavy-handed NRC) approach.
10. A detailed review of the Trust Fund established for the decommissioning has been undertaken, including (i) an analysis being performed by Arthur Andersen to review on an annual basis decommissioning cost estimates against Trust Fund deposits and (ii) an evaluation by Enron/PGE of the earned value of decommissioning expenditures against the adequacy of funds in the Trust Fund. The Trust Fund is also reviewed quarterly by Enron/PGE and audited annually by Arthur Andersen.

Additional Recommendations

In addition to those matters noted in the Enron/PGE Report, the following additional recommendations were made and discussed at the meeting:

- At least three times each year, senior Enron management and other Enron representatives will meet with representatives of PGE on the status of the decommissioning.
- On a semi-annual basis, Enron senior management from Portland will meet with the Chairman and President of Enron to brief them on the status of TNP.

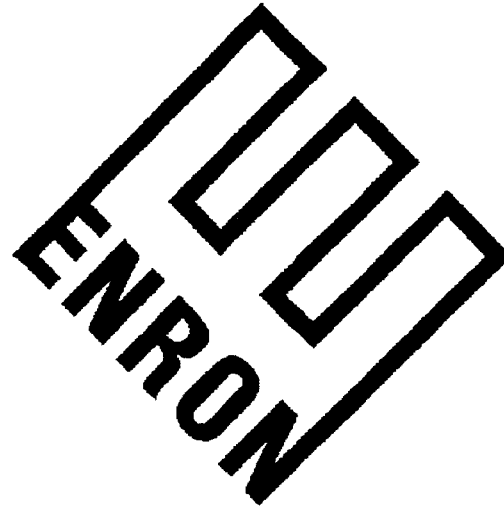
- On an annual basis, Enron senior management from Portland will brief the Enron Board of Directors and/or the Audit Committee on the status of TNP, with presentation materials. All presentation materials will have legal review prior to distribution of same.
- Enron/PGE will further define a set of measurable targets for the decommissioning, including individual responsibility and timelines for implementation/performance. Written contingency plans will be established for directing changes in implementation of certain major decommissioning activities (e.g., RVAIR and ISFSI), and benchmarks will be established to define and measure the triggering events for implementation of such plans.
- Outside nuclear counsel for Enron will be updated on the status of the decommissioning (including RVAIR, ISFSI and SNC) and he and/or Enron management will orally inform HGP of the intended course of action with respect to matters noted in the HGP Report and discussed at the meeting.

The meeting adjourned following reiteration of the preceding recommendations.

reicken\m&alpge-nuke\trojan1b.doc

Agenda Item 5

EC 000051054



Capital Risk Management

EC 000051055



Agenda

- Objectives and Priorities
- Fair Value Merchant Portfolio Composition
- Fair Value Merchant Portfolio Position Report
- Merchant Portfolio Process
- Risk Book Architecture
- Proposed Limit Structures
- ENE Buy and Sell Bands
- EOG Buy and Sell Bands

EC 000051056



Objectives and Priorities

Objectives:

- Transform Enron investments into a portfolio of liquid positions which can be more actively managed and financed

Implications:

- Merchant asset “risk books” with manageable exposures
- Daily mark-to-market of merchant assets
- Limit structures and risk management policy for merchant assets

Priorities:

- Current fair value assets by October Board meeting
 - ECT Merchant Assets
 - Selected International Assets
 - Enron Stock Books
- “Non strategic” assets by year end
 - International Assets
 - Tranches (carve outs) from regulated businesses

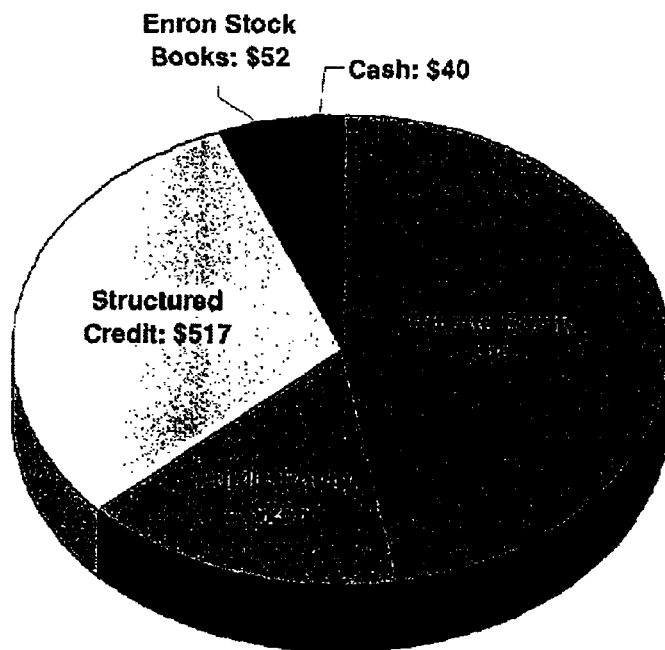
EC 000051057



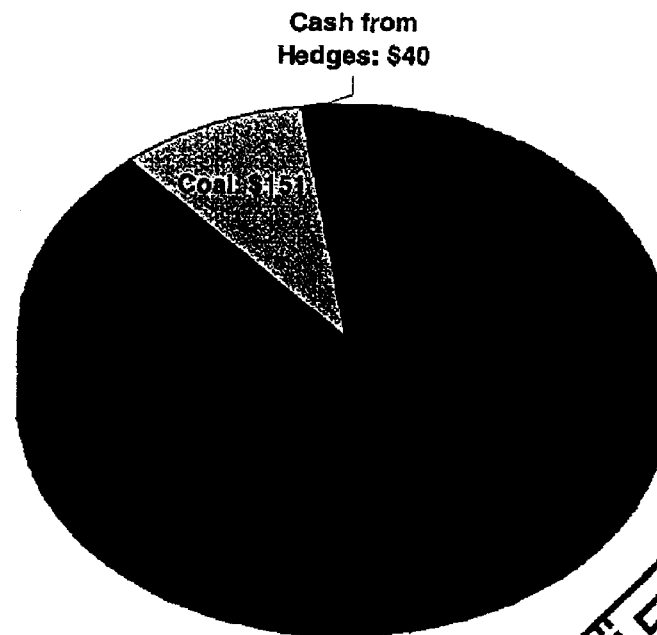
Fair Value Merchant Portfolio Composition As of 09/30/98:

Gross Fair Value Merchant Portfolio = \$2.22 Billion
 Syndications = <\$0.55 Billion>
 Net Fair Value Merchant Portfolio = \$1.67 Billion

**Net Portfolio:
By Asset Class
(millions)**



**Net Portfolio:
By Industry
(millions)**



Fair Value Merchant Portfolio Position Report

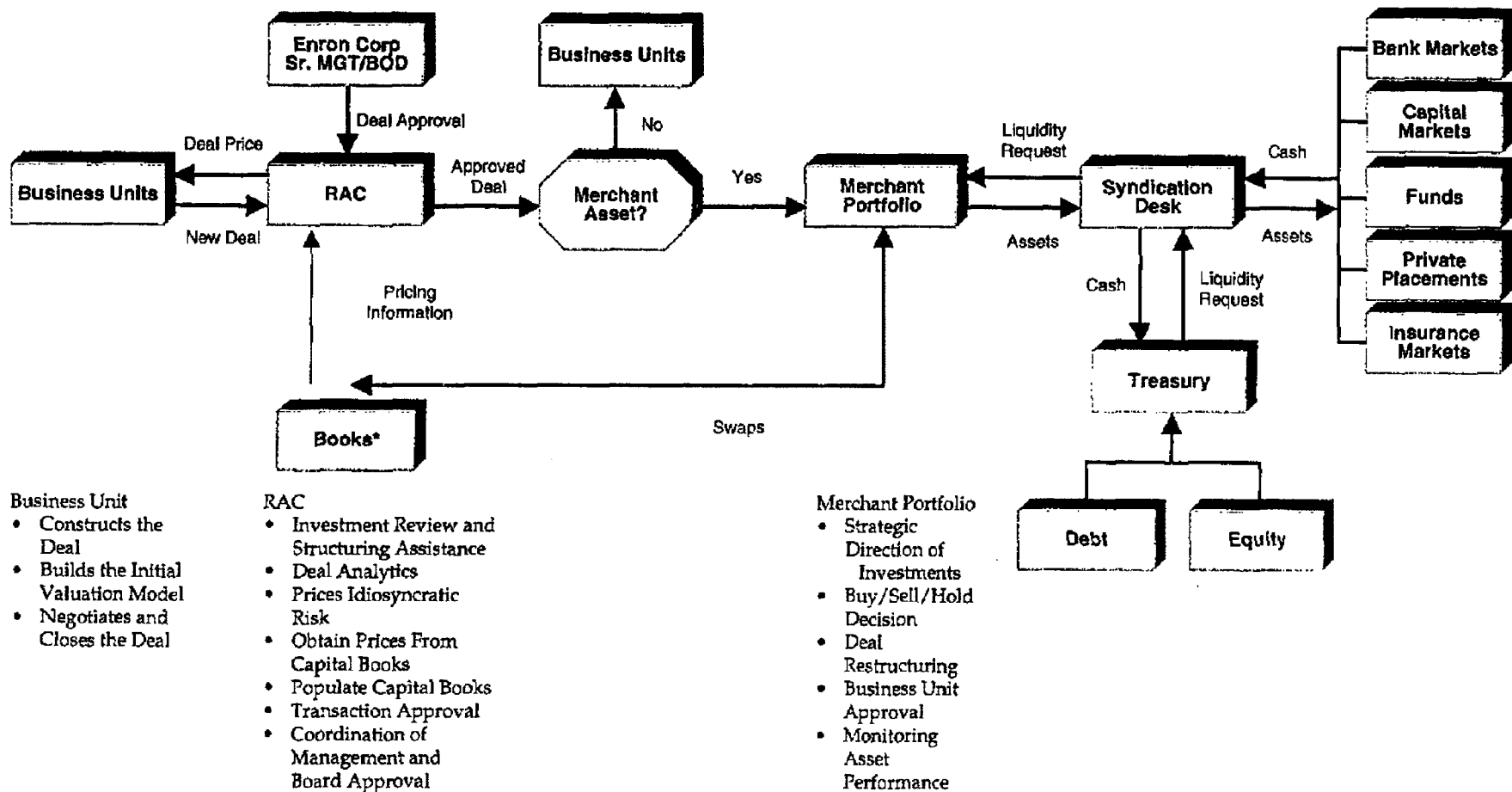
	Market Value 6/30/98	2nd Quarter Investments	3rd Quarter P/L	Market Value 6/30/98
Fair Value Merchant Portfolio				
Public - US	\$ 139,433,266	\$ 9,174,878	\$ (26,486,745)	\$ 122,121,399
Privates - US	\$ 726,417,237	\$ 26,541,982	\$ (5,195,097)	\$ 747,764,122
Public - Canada	\$ 17,199,496	\$ 97,082	\$ (2,961,168)	\$ 14,335,411
Public - UK	\$ 1,756,772	\$ -	\$ (1,141,227)	\$ 615,545
Privates - UK	\$ 14,035,000	\$ 13,700,674	\$ 688,000	\$ 28,423,674
Privates - Thailand	\$ 12,028,710	\$ -	\$ -	\$ 12,028,710
Public - Andean Pact/Southern Cone	\$ 140,700,000	\$ -	\$ (12,440,000)	\$ 128,260,000
Private - Andean Pact/Southern Cone	\$ 3,945,000	\$ -	\$ (1,136,000)	\$ 2,809,000
Total Equity	\$ 1,055,515,481	\$ 49,514,616	\$ (48,672,236)	\$ 1,056,357,851
Hedges				
US E&P			\$ 34,749,294	\$ 34,749,294
S&P			\$ 2,694,117	\$ 2,694,117
Canadian E&P			\$ 526,653	\$ 526,653
UK			\$ 280,001	\$ 280,001
Andean Pact/Southern Cone			\$ 285,832	\$ 285,832
Currency			\$ 942,000	\$ 942,000
Total Hedges			\$ 39,477,897	\$ 39,477,897
Equity Portfolio Net of Hedges			\$ (9,194,339)	\$ 1,095,835,758
Structured Credit	\$ 516,539,027			\$ 516,539,027
Enron Stock Books			\$ 52,760,647	\$ 52,760,647
Total Fair Value Merchant Portfolio	\$ 1,572,054,508	\$ 49,514,616	\$ 43,566,308	\$ 1,665,135,432

EC 000051059

ENRON

Enron Corp.

Merchant Portfolio Process



* The Books will be responsible for the following:

Execution, Curve Development and Maintenance, Risk Book Management, Market Views

EC 000051060



Risk Book Architecture

Characteristics

Quarterly revaluation

No market risk

Asset specific value changes

Merchant Portfolio

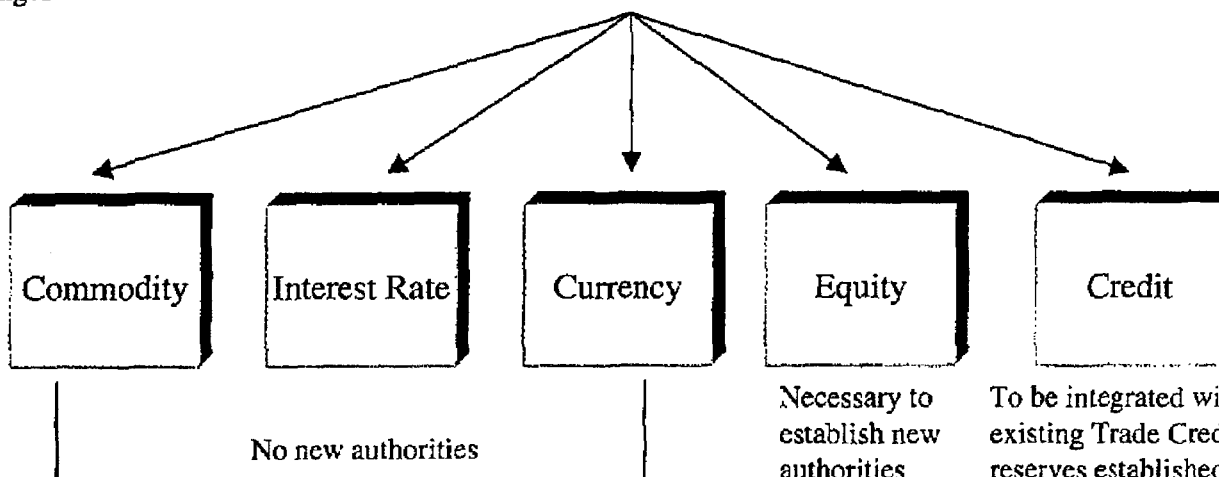
Systematic Risk Transfer

Characteristics

Daily MTM

Net open positions

Basis risk



EC 000051061

Proposed Limit Structures

Merchant Portfolio:

- Total Notional Dollar Limit (after syndication)
 - Current Exposure = \$1.67 Billion
 - Proposed Limit = \$2.0 Billion

Equity Portfolio:

- Net Open Position and VAR limits

	Benchmark	Current Open Position	Proposed Net Open Position Limit	V@R Limit
Enron Companies	\$ Notional	\$305 Million	\$300 Million	\$10 Million
Other	\$ Notional	\$150 Million	\$200 Million	\$10 Million

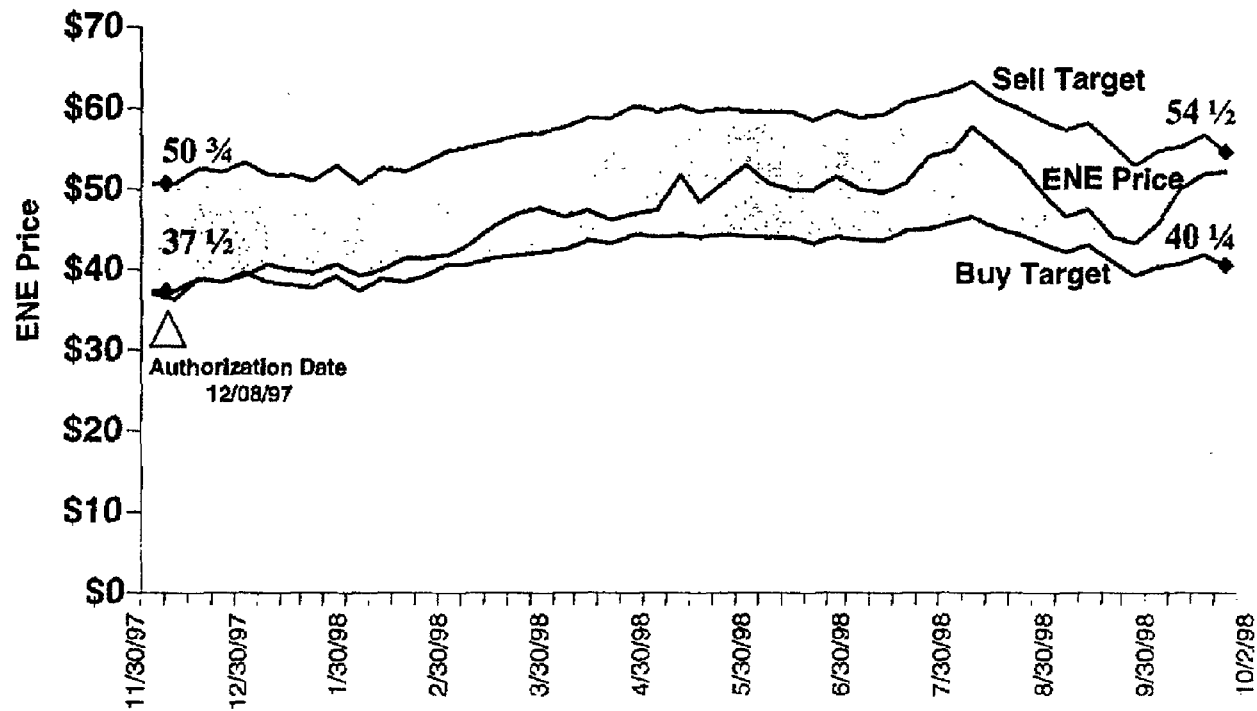
Trading Portfolios:

- No changes

EC 000051062



ENE Buy and Sell Bands

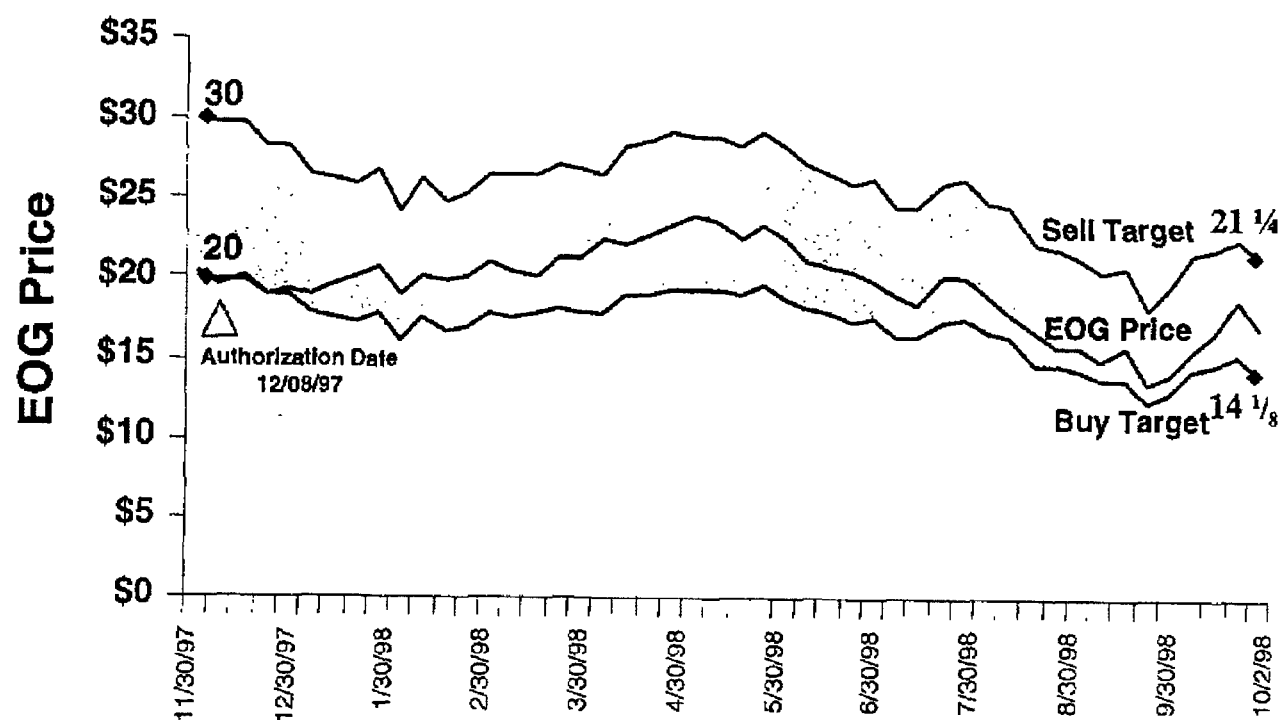


* Beginning Band Prices Escalated at Δ S&P 500 times β ENE



EC 000051063

EOG Buy and Sell Bands



* Beginning Band Prices Escalated at Δ E&P Basket times β EOG



EC 000051064

Market Risk Update

October 12, 1998

EC 000051065



Table of Contents

- ❑ Objectives
- ❑ Risk Profile
- ❑ Limit Violations
- ❑ Policy Changes

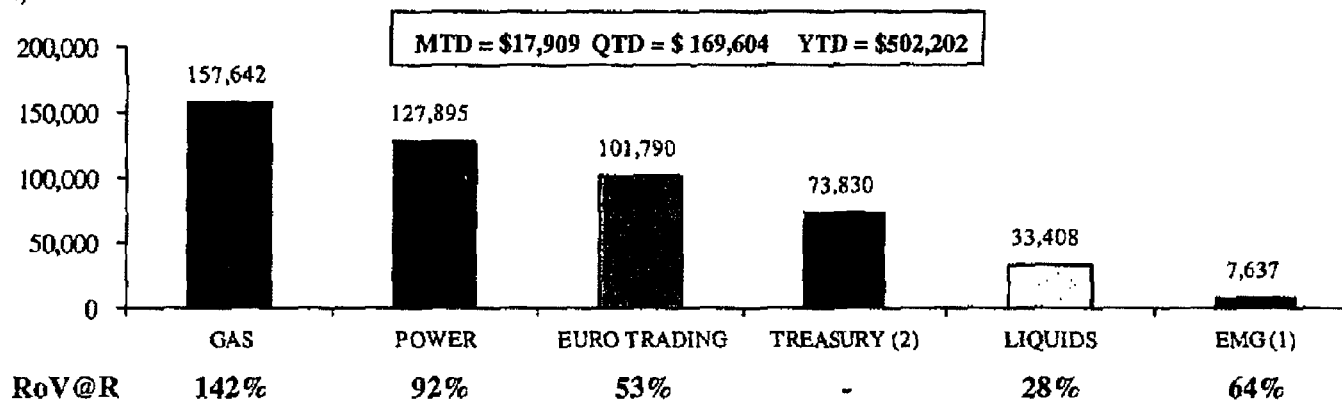
Objectives

- ☐ Provide overview of risk in the trading portfolios
- ☐ Inform the Board of any limit violations
- ☐ Summarize and discuss policy changes
- ☐ Provide opportunity to address policy issues

Risk Profile

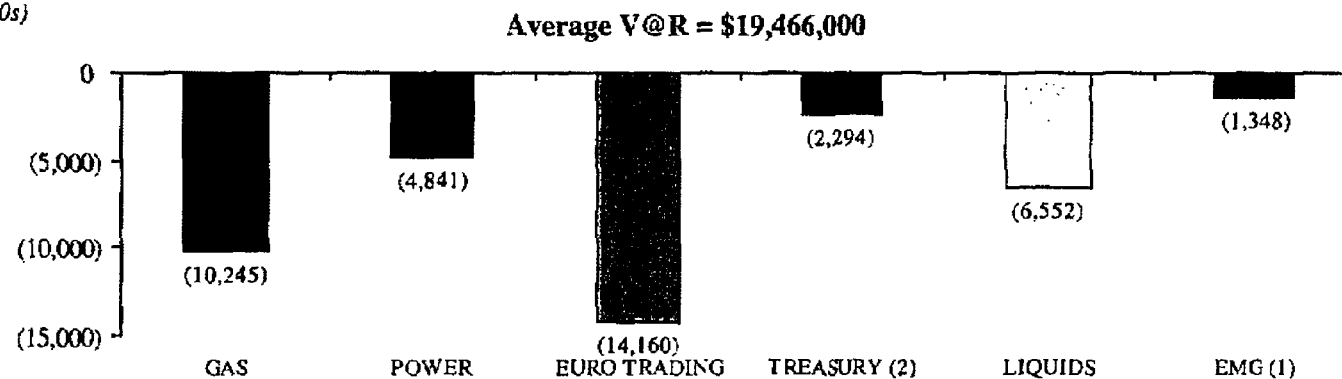
YTD P&L - As of 9/25/98

(\$000s)



Average V@R - September '98

(\$000s)



(1) EMG includes Emission Credits, Coal Trading, Paper, and Weather.

(2) Treasury includes Financial Instruments (US Interest Rate, Foreign Currency, UK Interest Rate) and Securities Trading.

Risk

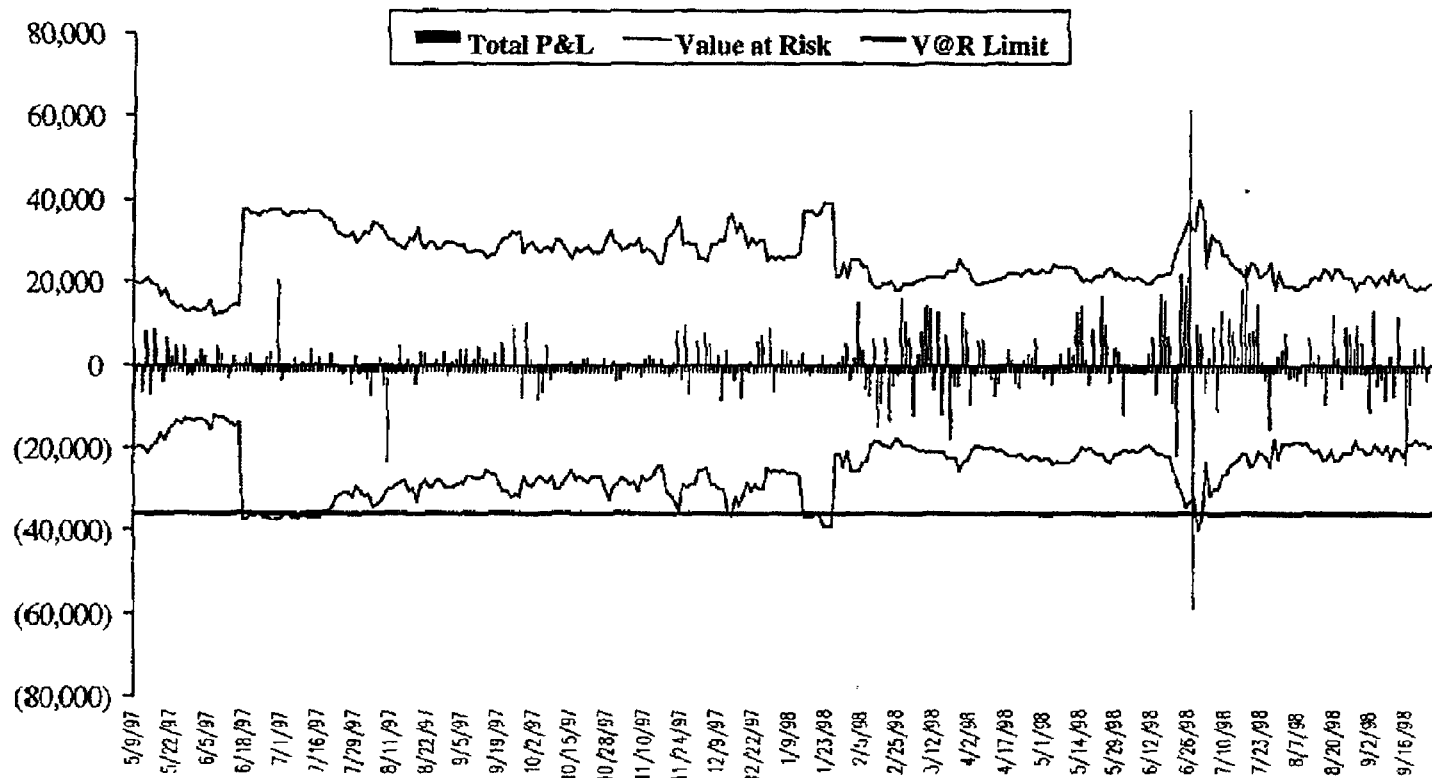


EC 000051068

Risk Profile

Backtesting AGG-ENRON V@R - 5/9/97 - 9/30/98

(\$000s)



Limit Violations

As of 9/30/98

Limits	Limit Amount	VIOLATIONS	MAX	ALL VIOLATIONS NOTIFICATION			
		QTD	QTD	(QTD)			
				CRO	COO	CEO	FC ⁽¹⁾
<u>AGG-ENRON</u>							
Position							
Maturity Gap							
V@R	(\$35,000,000)						
P&L Loss							
Daily	(\$10,000,000)	4	(\$18,434,000)	4	4	2	
5 Day Rolling	(\$15,000,000)	2	(\$18,126,000)	2	2	2	
		7		7	7	4	
<u>NA GAS ⁽²⁾</u>							
Position	150 bcf						
Maturity Gap	180 bcf	1	(133)	1	1	1	
V@R	(\$20,000,000)						
Daily Loss							
Daily	(\$5,000,000)	4	(\$14,647,000)	4	4	2	
5 Day Rolling	(\$10,000,000)	2	(\$18,541,000)	2	2	2	
		10		10	10	5	
<u>NA POWER</u>							
Position	25 MM MWH						
Maturity Gap	15 MM MWH						
V@R							
Daily Loss							
Daily	(\$5,000,000)	5	(\$10,909,000)	5	5	1	
5 Day Rolling	(\$10,000,000)	2	(\$14,136,000)	2	2		
		10		10	8	1	
<u>GLOBAL LIQUIDS</u>							
Position	12.5 MM bbl						
Maturity Gap	15 MM bbl						
V@R	(\$8,000,000)						
Daily Loss							
Daily	(\$5,000,000)						
5 Day Rolling	(\$10,000,000)						

(1) FC = "Finance Committee"

(2) The maturity gap violation occurred prior to the position limit increase (8/10/98 from 120 bcf to 180 bcf)

Limit Violations

As of 9/30/98

Limits	Limit Amount	VIOLATIONS		MAX		ALL VIOLATIONS NOTIFICATION			
		QTD		QTD		(QTD)			
						CRO	COO	CBO	FC ⁽¹⁾
<u>EUROPEAN GAS</u>									
Position	45 bcf								
Maturity Gap	60 bcf	2		51 bcf		2			
V@R	(\$7,500,000)								
Daily Loss									
Daily	(\$5,000,000)								
5 Day Rolling	(\$10,000,000)								
		2				2			
<u>EUROPEAN POWER</u>									
Position	10 MM MWH								
Maturity Gap	10 MM MWH								
V@R									
Daily Loss									
Daily	(\$5,000,000)	1		(\$7,405,000)		1	1		
5 Day Rolling	(\$10,000,000)								
		1				1	1		
<u>EMERGING MARKETS</u> ⁽²⁾									
Position	300,000 credits / 15 MM Tons / 150,000 Metric Tons / \$100 MM								
Maturity Gap	-								
V@R	-								
Daily Loss									
Daily	(\$5,000,000)								
5 Day Rolling	(\$10,000,000)								
<u>TREASURY</u>									
Position	-								
Maturity Gap	-								
V@R	-								
Daily Loss									
Daily	(\$5,000,000)								
5 Day Rolling	(\$10,000,000)								
TOTAL		30				30	26	10	

(1) FC = "Finance Committee"

(2) Both maturity gap violations occurred prior to the maturity gap limit increase (8/10/98 from 30 bcf to 60 bcf)



Policy Changes

- ☐ Limit violations to Chairman of the Audit Committee
- ☐ Updates to the Audit Committee at all regular Board meetings
- ☐ New commodities approved under interim policy

*Finance?
Ch. 41 Risk*

~~Continental Electricity~~

- Argentine Electricity
- Australian Electricity

EC 000051072



MINUTES
MEETING OF THE AUDIT AND COMPLIANCE COMMITTEE
OF THE BOARD OF DIRECTORS
ENRON CORP.
October 12, 1998

Minutes of a meeting of the Audit and Compliance Committee ("Committee") of the Board of Directors of Enron Corp. ("Company"), noticed to begin at 4:00 p.m., but actually begun at 4:15 p.m., C.D.T., on October 12, 1998, at the Enron Building in Houston, Texas.

The following Committee members were present, constituting a quorum:

Dr. Robert K. Jaedicke, Chairman
Mr. Ronnie C. Chan
Mr. Joe H. Foy
Lord John Wakeham
Mr. Bruce G. Willison

Committee member Dr. Wendy L. Gramm was absent from the meeting. Directors Norman P. Blake, Jr., Ken L. Harrison, Kenneth L. Lay, Jeffrey K. Skilling, and John A. Urquhart, Messrs. Brad Alford, Robert H. Butts, Richard B. Buy, Richard A. Causey, James V. Derrick, Jr., Robert D. Eickenroht, Andre LeGallo, Ted Murphy, Walter E. Pollock, and Stephen M. Quennoz, and Mesdames Peggy Y. Fowler and Peggy B. Menchaca, all of the Company or affiliates thereof, Messrs. Thomas H. Bauer, David Duncan, and D. Stephen Goddard, all of Arthur Andersen LLP ("Arthur Andersen"), also attended the meeting. Messrs. Blake, Harrison, LeGallo, Pollock, Skilling, and Quennoz and Ms. Fowler joined the meeting in progress as noted below.

The Chairman, Dr. Jaedicke, presided at the meeting, and the Secretary, Ms. Menchaca, recorded the proceedings.

Dr. Jaedicke called the meeting to order and noted that a draft of minutes of the meeting of the Committee held on May 4, 1998, had been distributed to the Committee members. He called for any corrections or additions. There being none, upon motion duly made by Mr. Foy, seconded by Mr. Chan, and carried, the minutes of the meeting of the Committee held on May 4, 1998, were approved as distributed.

ECh015474433

Mr. Duncan began the review of the 1998 financial and internal control audits. He distributed a copy of Arthur Andersen's letter to the Company confirming the arrangements for its services during 1998, a copy of which is filed with the records of the meeting. He updated the Committee on the status of the 1998 business risk audit plan and highlighted current activities. Mr. Causey joined in the report and discussed the extensive systems activities that were in process. Mr. Bauer discussed the enhancements developed for remote location risk assessment.

Mr. Duncan reviewed significant current activities in the financial reporting area. He discussed the status of monetizations, and Mr. Causey noted that Enron Capital Management expected a successful completion of its objective to have an estimated \$700 million monetized prior to year-end. Mr. Duncan also reviewed start-up costs and related company activities, acquisition related activities, continued evolution of mark-to-market and fair value accounting methodologies, and recent Securities and Exchange Commission ("SEC") initiatives. He distributed a copy of the speech given by Arthur Levitt, chairman of the SEC, on September 28, 1998, a copy of which is filed with the records of the meeting. Mr. Causey commented on the five earnings management practices referred to by Mr. Levitt in his speech and how such comments related to the Company's reporting practices.

Messrs. Causey and Duncan discussed matters relating to 1998 Financial Accounting, including a contract associated with the acquisition of Portland General Electric Company. Messrs. Duncan and Goddard discussed the issue in detail and Arthur Andersen representatives answered questions from the Committee. A copy of Mr. Duncan's report is filed with the records of the meeting.

Messrs. Blake, Skilling, and LeGallo joined the meeting during the previous discussion.

Mr. Causey presented a review of the Company's crisis management procedures. He noted the top ten countries in the world for kidnappings, the demands made, and results of negotiations from 1992 to date in each of the countries names. He discussed legal preparations, such as commissioning the Report of Kidnap Laws in high-risk countries, and also outlined the organizational and training preparations. He discussed the level of communication to country managers in an effort to disseminate the information necessary to promote awareness in each country where the Company had operating subsidiaries. He reviewed insurance coverage. Messrs. LeGallo and Derrick joined in the

discussion and answered questions from the Committee members. A copy of Mr. Causey's report is filed with the records of the meeting.

Mr. LeGallo left the meeting following the crisis management report, and Messrs. Alford, Harrison, Pollock, and Quennoz and Ms. Fowler joined the meeting.

Mr. Harrison presented an overview of the status of the decommissioning of the Trojan Nuclear Plant ("Trojan") by PGE. He introduced Messrs. Alford, Pollock, and Quennoz and Ms. Fowler and distributed two booklets related to the decommissioning effort, copies of which are filed with the records of the meeting. He called upon Mr. Pollock to begin the 1998 update. Mr. Pollock noted that Trojan was the first large nuclear plant to shut down early due to economics. He noted the state and federal regulations in effect at the time the plant was shut down. He reviewed the decommissioning strategy developed by PGE and called upon Mr. Quennoz to present the status of the decommissioning schedule.

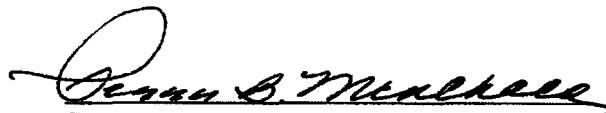
Mr. Quennoz reviewed the decommissioning schedule, which covered the period 1992 through 2020. He reviewed expenditures and the estimated balance of the Decommissioning Trust Fund at the end of the year. He discussed potential cost increases and decreases. He explained the reactor vessel removal project strategy and risks, and he discussed the independent spent fuel storage installation strategy and risks. A thorough discussion ensued, and the PGE team answered questions from the Committee members. Mr. Urquhart stated that he had examined the program and had visited the project site. He noted that he intended to return in November with Mr. Lawrence Izzo, president of Enron Engineering and Construction Company. In response to a question by Mr. Lay, Messrs. Harrison and Quennoz estimated a 70% chance of bringing the decommissioning project to close within the budget outlined. Dr. Jaedicke noted that the status of the project would be reported to the Committee on an annual basis.

Following the report, Messrs. Alford, Harrison, Pollock, and Quennoz, and Ms. Fowler left the meeting.

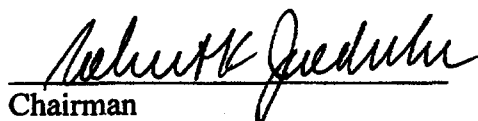
Mr. Buy began the update on the Company's risk management activities. He presented a risk profile analysis and valuation in each of the trading portfolios. He discussed limit violations as of September 30, 1998, and noted changes to be recommended to the Finance Committee of the Board with regard to the Company's Risk Management Policy. He stated that he would present updates on market risks and limit violations to the Committee at all of its regular meetings. A copy of Mr. Buy's report is filed with the records of the meeting.

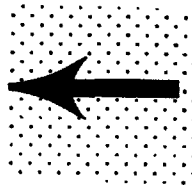
Dr. Jaedicke called for an executive session with Arthur Andersen, and all non-Committee members were excused from the meeting with the exception of Ms. Menchaca. During the executive session, the Committee asked the representatives of Arthur Andersen if they had additional information to bring before the Committee, and the representatives responded that they did not. Mr. Goddard noted that Arthur Andersen's relationship with the management of the Company fostered involvement of Arthur Andersen at early stages of major projects and early diagnosis, which was beneficial to both parties.

There being no further business to come before the Committee, the meeting was adjourned at 5:45 p.m.. C.D.T.


Secretary

APPROVED:


Chairman



**SIGN
HERE**

pbm\minutes\101298A.doc